

## Risk and Audit Committee Supplementary Agenda

**Date:** Wednesday, 9 December, 2020

**Time:** 1:00 pm

**Location:** Council Chamber  
Forum North, Rust Avenue  
Whangarei

**Elected Members:** John Isles (Chairperson)  
Her Worship the Mayor Sheryl Mai  
Cr Gavin Benney  
Cr Vince Cocurullo  
Cr Nicholas Connop  
Cr Ken Couper  
Cr Tricia Cutforth  
Cr Shelley Deeming  
Cr Jayne Golightly  
Cr Phil Halse  
Cr Greg Innes  
Cr Greg Martin  
Cr Anna Murphy  
Cr Carol Peters  
Cr Simon Reid

For any queries regarding this meeting please contact  
the Whangarei District Council on (09) 430-4200.

**4. Information Reports**

*4.9. Final Audit NZ Report for 30 June 2020*

**3**

## ***Risk and Audit Committee – Terms of Reference***

### **Membership**

**Chairperson** Independent Chair - John Isles

**Members** Her Worship the Mayor Sheryl Mai

Councillors Gavin Benney, Vince Cocurullo, Nicholas Connop, Ken Couper, Tricia Cutforth, Shelley Deeming, Jayne Golightly, Phil Halse, Greg Innes, Greg Martin, Anna Murphy, Carol Peters, Simon Reid

**Meetings** Quarterly

**Quorum** 7

### **Purpose**

To provide assurance to Council that robust, independent and operationally effective controls around operational and financial management practices are in place.

To provide oversight of the risk management of internal controls including but not limited to:

- Risk management framework
- Operational risk management
- Financial risk management
- Health and safety risk management
- Compliance with legislation

### **Key responsibilities**

- Risk
  - Approve and review Councils risk management framework
  - Review and monitor Council critical risks
  - Receive and review Health and Safety reports
  - Oversight of the processes used to manage project risks
- Internal audit
  - Approve and review the internal audit programme
  - Receive and review the internal audit reports as they become available.
- External audit
  - Receive and consider audit management reports, monitor that appropriate action is being taken
  - Hold a confidential meeting with the external auditors at least once every year.
- Financial planning and control
  - Treasury – debt and interest risk management

- Procurement – major risks associated with procurement
- Overseeing and making decisions relating to an ongoing programme of service delivery reviews as required under section 17A of the Local Government Act 2002.
- Other assurance activities:
  - Receive and monitor Councils policy review program.
  - Receive and monitor Councils legislative compliance attestations
  - Receive renewal information to provide assurance that Council's assets are insured appropriately.

## **Delegations**

- (i) All powers necessary to perform the committee's responsibilities, including:
  - (a) establishment of working parties or steering groups.

## 4.9 Final Audit NZ Report at 30 June 2020

<b>Meeting:</b>	Risk and Audit Committee
<b>Date of meeting:</b>	9 December 2020
<b>Reporting officer:</b>	Carl Wessels (Audit NZ) Gerard van den Berg (Audit NZ) Emily Thompson (Senior Assurance Advisor)

### 1 Purpose

To present Audit NZ's Final Audit Report of Whangarei District Council for the year ended 30 June 2020.

### 2 Recommendations

That the Risk and Audit Committee

- a) Notes the Final Audit Management Report issued by Audit NZ for the 2019/20 Financial Year.
- b) Notes the recommendations raised by Audit NZ.

### 3 Background

Each financial year, Audit NZ performs an audit on the Council's financial statements and supporting processes. This is agreed with management prior to the audit commencement.

Audit NZ issues two Audit Management Reports each financial year, highlighting areas where they have identified Council's processes can be improved. The first report is called an Interim Audit Management Report following their interim audit visit prior to 30 June.

The second (and final) report is issued after conclusion of their final audit after 30 September every year. The final report incorporates the items in the Interim report as well as those items identified in their final audit visit.

Council management receives the draft Audit Management Reports and provides commentary to Audit NZ to clarify matters, provide explanations and address any technical concerns. As the report has only just been received this review has not yet occurred, however any changes are expected to be minimal.

Audit NZ considers the comments and adjusts their findings, if needed, before finalising and issuing the Audit Management Reports to Council. The Audit Management Reports are reported to the Risk and Audit Committee, which has oversight of this function, every six months.

Council is committed to ensuring that any areas for improvement agreed with Audit NZ are monitored, addressed and implemented.

## **4 Discussion**

The draft final audit report for the 2019/20 Financial Year is attached. Audit NZ have issued a non-standard unmodified audit opinion. The audit report includes an emphasis of matter paragraph drawing attention to the disclosures in the Annual Report about the impact of Covid-19 on Council.

Audit NZ provided an opportunity for Council to respond with updates on recommendations that were included in the interim report that went to the June meeting of this Committee. These updates have been included in the report as shown in the attachment.

No new recommendations have been made as a result of the audit. Nine previous recommendations have now been implemented closed. Eight previous recommendations remain open, some of which will be revisited during the audit of the Long Term Plan.

## **5 Significance and engagement**

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website

## **6 Attachment**

Draft WDC Final Management Report for year ended 30 June 2020

# **Report to the Council on the audit of**

Whangārei District Council

For the year ended 30 June 2020

## Contents

Key messages .....	3
1      Recommendations .....	4
2      Our audit report.....	5
3      Matters raised in the Audit Plan .....	7
4      Public sector audit.....	12
5      Group audit .....	13
6      Key changes to the Government Rules of Sourcing.....	15
7      Useful publications.....	16
Appendix 1: Status of previous recommendations .....	20
Appendix 2: Disclosures .....	28



## Key messages

We have completed the audit for the year ended 30 June 2020. This report sets out our findings from the audit and draws attention to areas where the District Council is doing well and where we have made recommendations for improvement.

### Audit opinion

We have issued a non-standard unmodified audit opinion dated 26 November 2020. The audit report includes an emphasis of matter paragraph drawing attention to the disclosures about the impact of Covid-19 on the Council as set out in full Annual Report in the Covid-19 Financial Impacts section on pages 117 to 118 to the financial statements and page 27 of the performance information.

### Matters identified during the audit

2020 was a challenging year for all. Covid-19 disrupted both our interim audits and had a roll-on effect on the final audit. Due to the commitment from both management and ourselves we were able to find ways to work remotely when required and once the audit commenced management was ready and prepared and helpful.

Management made good progress, implementing a significant number of prior year audit recommendations. Some of the outstanding recommendation can only be followed-up during the upcoming LTP audit and 21J audit.

Our audit did not highlight any significant issues. We encourage management to continue to improve the quality of financial and performance information and monitor the performance of the CCOs to ensure they continue to comply with the legislative requirements of the Local Government Act.

### Thank you

We would like to thank the Council, management and staff for their patience during what was a very unusual and busy year and for their assistance with providing us with the information in a timely manner.



Carl Wessels  
Appointed Auditor  
4 December 2020

# 1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Priority	Explanation
<b>Urgent</b>	<b>Needs to be addressed <i>urgently</i></b> These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.
<b>Necessary</b>	<b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b> These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.
<b>Beneficial</b>	<b>Address, <i>generally within six to 12 months</i></b> These recommendations relate to areas where the District Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

## 1.1 New recommendations

We have not made any New Recommendations as a result of our audit.

## 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations.

Appendix 2 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	0	4	4	8
Implemented or closed	0	7	2	9
<b>Total</b>	<b>0</b>	<b>11</b>	<b>6</b>	<b>17</b>

## 2 Our audit report

### 2.1 We issued an unmodified audit report



We issued a non-standard unmodified audit report on 26 November 2020. This means we were satisfied that the financial statements and performance information present fairly the District Council's activity for the year and its financial position at the end of the year. The audit report included emphasis of matter paragraphs drawing attention to the impact of Covid-19 on the financial statements and performance information as indicated below:

#### 2.1.1 Impact of Covid-19

On 11 March 2020, the World Health Organisation declared the outbreak of a coronavirus (Covid-19) a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this the country was at Alert Level 4, and in lockdown. This has had and continues to have a negative financial impact on a number of businesses.

On pages 27, 117 and 118 of its annual report, the District Council has disclosed information about the impact of the pandemic. The impact includes closure of non-essential facilities during alert levels which saw a reduction in revenue and some levels of service. In addition, the District Council delayed some capital projects. The overall impact on the financial results was not significant.

#### 2.1.2 Investment property

Note 15 on pages 155 and 156 describes the significant uncertainties highlighted by the valuer, related to estimating the fair values of the company's Investment property.

In forming our audit opinion, we considered the following matters. Refer to sections 3 for further detail on these matters.

We reviewed the financial statements disclosures and are satisfied that the Covid-19 impacts are sufficiently disclosed.

## 2.2 Uncorrected misstatements

The misstatements that have not been corrected are listed below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
(1) Receivables Revenue		1,100,000			(1,100,000)
(2) Gain on Transfer PPE		645,000			(645,000)
(3) Asset Revaluation Gain on Asset Found				556,158	(556,158)
<b>Total parent/Group</b>		<b>1,745,000</b>		<b>556,158</b>	<b>2,301,158</b>

### Explanation of uncorrected misstatements

- 1 Recognising the receivable and relating revenue, erroneously disclosed as a contingent asset.
- 2 Recognising the difference in the FV of the assets transferred from Investment Properties to PPE.
- 3 Transfer of gains related to Assets found and Vested from Asset Revaluation Reserve to Profit and Loss.

## 2.3 Quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the District Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management. The list included the dates we required the information to be provided to us.

The impact of Covid-19 created additional challenges for both management and the audit team in completing the audit this year. Covid-19 impacted both of our interim audits as and had a roll on effect on the final audit. Although the initial Annual Report received did not contain all the disclosure notes and we some of the documentation to support the performance information was not all received timeously management and staff provided information timeously and of the required quality.

### 3 Matters raised in the Audit Plan



In our Audit Plan of 14 May 2020, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
<b>Significant Risk: Management override</b>	
<p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud.</p>	<p>In response to the risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We used Team Mate Analytics (journals module) to assist with our journals testing. We particularly focused on high risk journals. No issues were identified as a result of this review.</p> <p>We also reviewed accounting estimates for bias and did not identify any issues.</p> <p>We did not identify any significant transactions that are outside the normal course of Council's business or that otherwise appear to be unusual.</p>
<b>Significant risk: Revaluation of property, plant and equipment</b>	
<p>The District Council periodically values its infrastructure assets and investment properties. The accounting standards, specifically PBE IPSAS 17: <i>Property, Plant and Equipment</i>, requires that valuations are carried out with enough regularity to ensure that the carrying amount does not differ materially from its fair value.</p> <p>The District Council's roading assets and investment properties will be revalued this year to ensure the carrying value of these assets reflects their fair value. The District Council needs to ensure that it assesses the reasonableness all significant assumptions and methodologies applied over these valuations.</p>	<p>We considered the revaluation of property, plant and equipment and investment properties to be an audit risk due to the judgements involved in determining the fair value of these assets.</p> <p>Our audit procedures have included:</p> <ul style="list-style-type: none"> <li>• discussing the overall procedures to control the revaluation process with the District management;</li> <li>• reading the valuation reports and making enquiries of the valuers to obtain an understanding of the valuation methodologies used;</li> <li>• assessing whether the valuation movements are reasonable and consistent with our expectations;</li> </ul>

Audit risk/issue	Outcome
<p>For assets not being revalued the District Council will need to formally assess whether a revaluation is required to ensure the carrying value of these assets fairly reflects their fair value. It is important that the District Council makes this assessment at an early stage as a full valuation may require a significant amount of time to complete.</p>	<ul style="list-style-type: none"> <li>• assessing the reliability of source data and the reasonableness of assumptions used; and</li> <li>• confirming that cut-off was correct for the revaluation procedure.</li> </ul> <p>We found that:</p> <ul style="list-style-type: none"> <li>• reasonable controls existed over the revaluation process;</li> <li>• the valuation methodologies were largely unchanged from prior years and they were appropriate and consistent with PBE IPSAS 17: <i>Property, Plant and Equipment</i> and PBE IPSAS 16, <i>Investment Property</i>;</li> <li>• valuation movements are reasonable and consistent with our expectations;</li> <li>• the valuers had adequate and reliable information to reasonably determine the fair value of the assets, and the assumptions used in the valuations are reasonable; and</li> <li>• cut-off was correct for the revaluation procedure.</li> </ul> <p>We have also:</p> <ul style="list-style-type: none"> <li>• confirmed that the fair value gain arising from the change in fair value of the District Council's PPE and investment properties has been correctly calculated and accounted for in accordance with PBE IPSAS 17 (revaluation recognised through to the revaluation reserve) and PBE IPSAS 16 (revaluation recognised through the surplus/(deficit) for the year);</li> <li>• obtained representations from both valuers that the valuations were conducted in accordance with valuation and accounting standards and that they are independent of the District Council; and</li> </ul>

Audit risk/issue	Outcome
	<ul style="list-style-type: none"> <li>completed our “use of expert” checklist and satisfied ourselves that using the valuers’ work as audit evidence is appropriate and that we can rely on the valuers’ work.</li> </ul> <p><b>Roadings:</b></p> <p>The District Council engaged WSP-Opus to carry out the roadings revaluation. Based on the Opus valuation, roadings assets revalued upward by \$2.3 million. The bulk of the increase was driven by a change from indexing unit rates due to market deviations over time.</p> <p><b>Investment properties</b></p> <p>Consistent with last year Telfer Young (Northland) Limited (Telfer Young) carried out the revaluation for the District Council.</p> <p>Telfer Young used the same methodologies as in the past, that is, market value of properties which were established by either using the income capitalisation approach, discounted cashflow approach, market comparison approach or the depreciation replacement cost approach.</p> <p>Based on the revaluation, the investment property was valued downwards by \$1.5 million.</p> <p>We reviewed the assumptions and methodology applied in completing the valuation and discussed these assumptions in order to gain comfort over the valuation movements. We are satisfied the valuations are fairly stated in the financial statements.</p>

Audit risk/issue	Outcome
<b>New accounting standards</b>	
<p>The following standards come into effect for the financial year beginning 1 July 2019:</p> <ul style="list-style-type: none"> <li>• PBE IPSAS 34 <i>Separate Financial Statements</i>;</li> <li>• PBE IPSAS 35 <i>Consolidated Financial Statements</i>;</li> <li>• PBE IPSAS 36 <i>Investments in Associates and Joint Ventures</i>;</li> <li>• PBE IPSAS 37 <i>Joint Arrangements</i>; and</li> <li>• PBE IPSAS 38 <i>Disclosure of Interests in Other Entities</i>.</li> </ul>	<p>We reviewed management assessment for PBE IPSAS 34 -38 and are satisfied that the standards did not have any significant impact on the Council and did not lead to any changes to the accounting and recognition of the Council's subsidiaries during the year.</p>
<b>Significant projects - Whau Valley Wastewater Treatment Plant and Civic Centre Project</b>	
<p>The Whau Valley Treatment Plant was raised as an area of audit focus due to the large amount of capital expenditure planned on this project.</p>	<p>Following the request for tender, the District Council received seven submissions for the project. From these, the District Council narrowed down the submissions to two.</p> <p>The construction contract was awarded to Broadspectrum NZ Limited for \$26.98 million. As at 30 June 2020, \$19.1 million (2019: \$3.1 million) had been spent to date and is currently included in work in progress.</p> <p>Construction of our new water treatment plant at Whau Valley continued this year, with its opening still on track for 2021.</p>
<b>Carry forwards of capital projects</b>	
<p>On 25 July 2019 Council approved capital projects carry forwards of \$34 million for 2019/20.</p> <p>Council will need to closely monitor carry forwards given the risks for the District Council of not delivering against these projects include:</p> <ul style="list-style-type: none"> <li>• a decline in the level of service delivery;</li> <li>• increased project costs; and</li> <li>• insufficient capability and capacity to clear project backlog.</li> </ul>	<p>We understand Covid-19 did delay some projects due to the ability to carry out works during the period of lock down. This delay has resulted in carry forwards into 2020-21 financial year.</p> <p>Carry forwards continues to be area of an area of focus for the District Council to ensure the Carry Forwards are reduced to ensure the level of service delivery remains stable.</p> <p>On 27 August the Council approved capital projects carry forwards of \$33.9 million for 2019/20.</p>



Audit risk/issue	Outcome
	<p>We have analysed the detailed carry forwards and noted the largest carry forwards relates to the following services:</p> <ul style="list-style-type: none"> <li>• Transportation projects: net \$7.5 million, after \$8 million NZTA subsidies;</li> <li>• Parks and recreation; \$7.4 million; and</li> <li>• IT related services totalling \$3.5 million.</li> </ul> <p>We understand management are closely monitoring the carry forwards and are reporting the progress to the Council. We have recommended to management to continue to progress the carry forwards to avoid any decline in service delivery and escalated project costs.</p>

## 4 Public sector audit



The District Council is accountable to their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the District Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the District Council has fairly reflected the results of its activities in its financial statements and performance information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the District Council carrying out its activities effectively and efficiently;
- the District Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the District Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

We have not identified any specific issues or concerns to report as a result of the audit work we performed.

## 5 Group audit



The group comprises:

- Whangārei District Council;
- Whangārei Art Museum Trust;
- Whangārei District Airport;
- Springs Flat Contractors Limited;
- Whangārei Waste Ltd;
- Northland Events Centre Trust;
- Northland Regional Landfill Limited Partnership; and
- Whangārei Quarry Garden Trust

We have not identified any of the following during our audit for the year ended 30 June 2020:

- Instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work.
- Limitations on the group audit.
- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

### **Significant Group Issue: Hundertwasser Project**

The Whangārei Art Museum Trust (the Trust) commenced building the Hundertwasser Wairau Maori Arts Centre (HWMAC) during 2018 and construction is now well underway.

Since the Trust is a significant component of the group (refer to the group audit section of this plan), the group needs to ensure that:

- revenue has been recorded in the correct accounting periods;
- the various revenue streams (for example pledges) meet the revenue recognition criteria in terms of the Accounting Standards;
- project costs have been correctly classified into work-in-progress (WIP);
- any capitalised WIP has been tested for impairment - this is important in light of the recent design changes; and

- disclosures around guarantees, commitments, work in progress, and revenue have correctly been disclosed.

Additionally as the project progresses we expect that the Trust will closely monitor the project including contract variations. Given the significance of the project to the group Council needs to be satisfied that appropriate project governance processes are in place.

#### **Whangārei District Airport**

We qualified the performance information for Whangārei District Airport in respect of a performance measure; *“User satisfaction levels with airport facilities and future developments.”* seeing there was insufficient evidence available to confirm independently the accuracy of client satisfaction survey.

## 6 Key changes to the Government Rules of Sourcing



As from 1 October 2019, the new Government Procurement Rules (the Rules) come into force. The Rules are a revision of the previous third edition of the Government Rules of Sourcing and were approved by Cabinet in May. Much of the content is consistent with the third edition with some re-numbering of Rules. The new Rules and a table of rule changes can be found in this link [Table of Rule Changes](#). Although the Rules are not applicable to the District Entities should watch out for a few important changes noted below:

### **Government Procurement Charter**

The new rules include a Charter for the first time. The Charter sets out the Government's expectations of how agencies should conduct their procurement activity to achieve public value. The Charter applies even when the Rules do not. Whangārei District Council will need to demonstrate how they are meeting these expectations in their procurement activity.

### **Broader outcomes**

The new Rule 16 outlines a number of secondary benefits that it is seeking from the way in which procurement is conducted in the public sector. These secondary benefits relating to the costs and benefits to society, the environment and the economy are required to be considered (where appropriate) along with the whole of life costs of the procurement.

To maximise the effects of these priorities, the Government will be designating some contracts or sectors where the outcomes must be prioritised. These will be published at [www.procurement.govt.nz](http://www.procurement.govt.nz).

### **Procurement planning**

A new Rule 15 includes guidance and expectations related to procurement planning. Rule 22 has been amended so that significant procurement plans must be submitted to the Ministry of Business, Innovation, and Employment for review on request.

### **Threshold changes**

The thresholds for when the Rules apply (contained in Rules 6 and 7) have been taken out of the Rules document and will now be found at [www.procurement.govt.nz](http://www.procurement.govt.nz). We understand this is to facilitate changes in the thresholds as necessary, without a full change to the GPS. The immediate change is to the threshold for new construction works, which reduces from \$10 million in the current edition to \$9 million.

We encourage procurement staff to understand the changes, and prepare for their implementation by considering the changes that are required to Whangārei District Council's procurement policies, procedures and practices.

## 7 Useful publications



Based on our knowledge of the District Council, we have included some publications that the Council and management may find useful.

Description	Where to find it
<b>Sensitive expenditure</b>	
The Auditor-General has updated his good practice guide on sensitive expenditure. The guide provides practical guidance on specific types of sensitive expenditure, outlines the principles for making decisions about sensitive expenditure, and emphasises the importance of senior leaders “setting the tone from the top”. It also describes how organisations can take a good-practice approach to policies and procedures for managing sensitive expenditure.	On the OAG’s website under publications. Link: <a href="#">Sensitive expenditure</a>
<b>Covid-19 impact on Public Sector Reporting</b>	
<p>The state of emergency in response to the Covid-19 coronavirus has significantly impacted most public sector entities. The consequences for the completion of annual reports and the annual financial statements are one part of this impact.</p> <p>We are developing a series of Bulletins in response:</p> <ul style="list-style-type: none"> <li>• revaluations of property, plant and equipment and investment property;</li> <li>• service performance reporting; and</li> <li>• financial reporting.</li> </ul>	On our website under good practice. Link: <a href="#">Covid-19 bulletins</a>

Description	Where to find it
<b>Client updates</b>	
<p>As part of our response to the Covid-19 situation, we developed online client updates to replace the in-person sessions that were cancelled.</p> <p>This year's material is accessible via video presentations on our website. You can explore the material at a pace that takes account of your busy schedule.</p> <p>The themes respond to challenges that our clients now face, such as planning for unexpected events or dealing with additional reporting requirements related to Covid-19 and climate change.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client updates</a></p>
<b>Tax matters</b>	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under good practice</p> <p>Link: <a href="#">Tax Matters</a></p> <p>Link: <a href="#">Reduction in deferred tax on buildings</a></p>
<b>Client substantiation file</b>	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On our website under good practice.</p> <p>Link: <a href="#">Client Substantiation File</a></p>

Description	Where to find it
<b>Long-term plans and consultation documents (LOCAL AUTHORITIES ONLY)</b>	
<p>Having audited long-term plans (LTPs) since 2006, we understand the significant effort that councils invest in preparing an LTP.</p> <p>We want to make the audit process for the 2021-31 LTPs and consultation documents as straightforward as possible, so we have put together some information to help councils to:</p> <ul style="list-style-type: none"> <li>• understand our responsibilities and our main focus areas in the audit;</li> <li>• prepare better documents for their communities; and</li> <li>• develop project plans that make their LTP process go smoothly.</li> </ul>	<p><b>On our website under good practice.</b></p> <p>Link: <a href="#">Long-term plans and consultation documents</a></p>
<b>Conflicts of interest</b>	
<p>The Auditor-General has recently updated his guidance on conflicts of interest. A conflict of interest is when your duties or responsibilities to a public organisation could be affected by some other interest or duty that you have.</p> <p>The update includes a printable A3 poster, an animated video on predetermination and bias, gifts and hospitality, and personal dealings with a tenderer. There is also an interactive quiz.</p> <p>These can all be used as training resources for your own employees.</p>	<p>On the Office of the Auditor-General's website under 2019 publications.</p> <p>Link: <a href="#">Conflicts of interest</a></p>



Description	Where to find it
<b>Severance payments</b>	
Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny. The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payment to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.	On the OAG's website under 2019 publications.  Link: <a href="#">Severance payments</a>
<b>Good practice</b>	
The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on: <ul style="list-style-type: none"> <li>• audit committees;</li> <li>• conflicts of interest;</li> <li>• discouraging fraud;</li> <li>• good governance;</li> <li>• service performance reporting;</li> <li>• procurement;</li> <li>• sensitive expenditure; and</li> <li>• severance payments.</li> </ul>	On the OAG's website under good practice.  Link: <a href="#">Good practice</a>
<b>Procurement</b>	
The OAG are continuing their multi-year work programme on procurement.  They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.  Whilst this is focused on local government, many of the questions are relevant to all types of public sector entities.	On the OAG's website under publications.  Link: <a href="#">Procurement article</a>

## Appendix 1: Status of previous recommendations

### Open and ongoing recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Carry forwards</b>  We recommend management continue to progress the carry forwards to avoid any decline in service delivery and escalated project costs.	2019	<b>Management comment</b>  <i>Management continues to monitor carry forwards. Covid-19 has impacted on our ability to deliver projects for the 19/20 financial year.</i>  <b>Open and ongoing</b>  Carry forwards continues to be area of an area of focus for the District Council to ensure the Carry Forwards are reduced to ensure the level of service delivery remains stable. Projects Carried forward to 2021 amounted to \$34 million and we will assess as part of our LTP audit how the District Council intends to plan and manage the Carry Forwards to ensure the projects are completed.
<b>Stormwater, flood protection, solid waste, wastewater, water and parks and recreation</b>  We recommend that management carry out a review over the pipe depth information and ensure this is updated and taken into account for the next valuation round.	2019	<b>Open</b>  Seeing water assets are not scheduled to be reviewed during the financial year, we will only be able to follow-up the implementation during the following revaluation of water assets.
<b>Redundant network user accounts</b>  We recommended that a review of user accounts and access rights at network level is carried out to ensure that unused accounts are disabled.	2018	<b>Management comment</b>  <i>Contractor accounts are being reviewed and disabled if advised by Department managers. The process of disabling an account is included in the SCAP document when someone leaves, this is a robust process for staff but not for contractors. Management will review and work with Department Managers to ensure a SCAP process is completed for Contractors as well.</i>

Recommendation	First raised	Status
		<b>Open</b> We obtained a current Active Directory listing of user accounts and noted redundant user accounts are present. There are also a number of accounts that have not been used at all. To be followed-up during the 21J audit.
<b>Sensitive expenditure testing</b> We recommended that management remind staff that tax invoices are retained for all credit card expenditure and ensure these are approved on a one-up basis. We further recommend that Council considers implementing processes that require sensitive expenditure to be reported.	2019	<b>Management comment</b> <i>Our sensitive expenditure policy is currently being reviewed. Part of this process will include a recommendation to R&amp;A Committee concerning the reporting of General Manager and Elected Member sensitive expenditure.</i> <b>Ongoing</b> No issues identified during our testing of sensitive expenditure during the audit but we will continue to follow-up and review the updated policy in the 21J audit to ensure alignment with the update sensitive expenditure guidance issued by the OAG (refer section 7).
<b>Beneficial</b>		
<b>Procurement policy</b> We recommended that the District Council considers including the improvements noted to the Procurement Policy to ensure it is in line with best practice.	2019	<b>Management comment</b> <i>The Procurement Policy has been reviewed and is in the process of being finalised. A new Procurement Manual is also underway.</i> <b>Open</b> In progress.
<b>Project management</b> We identified the following areas for improvement. The project management framework was last updated in 2009. This project management framework and guidance should be reviewed: <ul style="list-style-type: none"> <li>there needs to be more clear guidance on what projects are required to be managed by the project management team;</li> </ul>	2018	<b>Management comment</b> <i>Staff are currently still using spreadsheets. Further work on the project management system has been delayed due to delays with the Asset Management System and GIS upgrades.</i> <b>Open</b> Project scoping recommendation is implemented with requirement to complete the project brief for every project. Audit has sighted an example for

Recommendation	First raised	Status
		the project Recreation and Ecological Linkages – Tracks and Walkways.
<ul style="list-style-type: none"> <li>the scope of projects need to be more clearly defined so management can ensure the projects have achieved what they set out to achieve; and</li> <li>post implement reviews over projects should be performed, documented and reported.</li> </ul> <p>The project management system is currently being maintained on a spreadsheet. To gain efficiency and reduce the likelihood of human error it would be beneficial to improve this project management reporting system to enable better reporting. This system should be integrated with financial management and asset management and could be considered as part of the planned updates to the asset management systems.</p>		<p>Hatea Walkway - track up-grade.</p> <p>The following areas are pending on client feedback:</p> <ul style="list-style-type: none"> <li>Project Management Framework Review implementation;</li> <li>clearer guidance on what project is required to be managed by the project management team; and</li> <li>whether project management has moved from spreadsheet-based to an improved reporting system (that is, integrated to an upgraded AMS).</li> </ul>
<p><b>Roading assets</b></p> <p><b>We recommend management carry out a condition assessment of its roading assets.</b></p> <p>We recommended that asset condition data should be incorporated into the asset management system. This will ensure that the assets are consistently and objectively valued.</p>	2019	<p><b>Management comment</b></p> <p><i>This question was raised as part of the 2018/19 audit process this year and has been answered multiple times in the past audits. This was discussed with the auditor, who documented the response, agreed with the process that roading use in considering condition in the setting of Useful Lives. We suggest that a full copy of the onsite audit notes are requested. The comment in the report are incorrect and inaccurate.</i></p> <p><i>Roading undertake condition assessment for its key asset classes. In considering the setting of the asset Useful Life we analyse the condition data, life achieved, demand/environment the assets exist in. This is then used as part of developing the forward work programme which considers all of this data and what life is actually being achieved.</i></p>

Recommendation	First raised	Status
		<p><i>From this analysis the valuation Useful Lives are set based on actual observed life which considers asset condition as collected through condition surveys. This is further validated against IIMM suggested Useful Lives and has been compared over time with the forward work programme. Each year useful lives are revised for each asset class.</i></p> <p><b>Open</b></p> <p>We obtained a high-level understanding of the process WDC follows to perform condition assessments of its roading assets. We will obtain a more in depth understanding as part of our LTP audit when we will also review the AMP.</p>
<p><b>Inappropriate set-up of Wastewater Mandatory measure</b></p> <p>We recommended that the District Council reviews all long term planning (LTP) measures uploaded into their Corporate Performance Module and ensure these are in-line with both the performance framework approved in the 2018-28 LTP and in line with the DIA regulations.</p>	2019	<p><b>Management comment</b></p> <p><i>We have reviewed our Corporate Performance Management system and process and these will be implemented for the next Annual Report.</i></p> <p><b>Open</b></p> <p>To be followed-up during the LTP audit.</p>

## Closed recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<p><b>Retaining signed employee agreement</b></p> <p>We recommended that management ensures they retain a copy of the employee's signed employee agreement and ensure this is signed prior to the person starting employment.</p> <p>We also recommended that signed salary review letters are retained by the District Council.</p>	2018	<p><b>Management comment</b></p> <p><b>Complete</b></p> <p><i>The signed employee agreement was a one of incident and we have put steps in place to ensure it does not occur again.</i></p> <p><i>The CE signs off the final annual salary review worksheet. This is retained by Payroll.</i></p> <p><b>Audit comment</b></p> <p><b>Closed</b></p> <p>No issues identified during our audit.</p>
<p><b>Improvement to roading processes</b></p> <p>We recommended that:</p> <ul style="list-style-type: none"> <li>Processes are improved so that projects can be easily traced to assets capitalised within RAMM.</li> <li>A formal review over the unit prices and overhead rates be performed to ensure that unit prices reflect the contracted amount. This will ensure that there is no significant difference between the contract amount and valuation unit prices.</li> <li>For all new additions a record for that asset is added in RAMM or can easily be traced to an existing record.</li> <li>A review over operational contracts to ensure if a proportion of the contracts are capitalised that a proportion of the contracts are also included as part of capital commitments.</li> </ul>	2018	<p><b>Management comment, aligning to points raised:</b></p> <ul style="list-style-type: none"> <li><i>Completed pre-June 2019.</i></li> <li><i>Completed pre-June 2019.</i></li> <li><i>Completed pre-June 2019.</i></li> <li><i>All assets newly created or renewed are recorded in the RAMM database unless held in WIP awaiting completion.</i></li> </ul>

Recommendation	First raised	Status
<p>All assets that are showing as capitalised in the financial statements should also be capitalised in the RAMM database.</p>		<ul style="list-style-type: none"> <li><i>The structure of Council's financial ledger for the roading activity matches the funding categories that NZTA require Council to make financial claims for subsidy against.</i></li> <li><i>The NZTA funding categories are split between Maintenance, Operations, (OPEX), Renewals and Improvements (CAPEX). All of Council's roading contracts Opex and Capex are split as necessary and recorded against the appropriate NZTA category. The NZTA funding manual defines what roading activities are eligible to be claimed from each Funding category.</i></li> </ul> <p><b>Audit comment</b></p> <p><b>Closed</b></p> <p>Although there are always room for improvement, we have not noted any issues during our audit and the issue is therefore closed.</p>
<p><b>Hundertwasser Wairau Maori Art Centre project monitoring</b></p> <p>We recommend that the District Council requests the Trustees of Whangārei Art Museum Trust to improve the project monitoring reports provided to Council.</p>	2019	<p><b>Management comment</b></p> <p><i>Management are receiving monthly project reports.</i></p> <p><b>Audit comment</b></p> <p><b>Closed</b></p> <p>We have confirmed during our audit of WAMT that monthly reports and bi-annual update reports are prepared and provided to Council.</p>
<p><b>Non-financial performance measures</b></p> <p>We recommend that the District Council reviews its performance measures to ensure that information backing the results is accurate and can be re-performed. We also recommend that the review process over the performance information is strengthened.</p>	2019	<p><b>Management comment</b></p> <p><i>We have reviewed and Corporate Performance Management system and process and these will be implemented for the next Annual Report.</i></p> <p><b>Audit comment</b></p> <p><b>Closed</b></p> <p>We have not identified any significant issues during our audit.</p>

Recommendation	First raised	Status
<b>Group entities</b> We recommend that the District Council ensures that the group entities are fully compliant with the Local Government Act 2002.	2019	<b>Management comment</b> <i>Management will review.</i> <b>Audit comment</b> <b>Closed</b> During our audit of the CCOs that we have not identified any significant non-compliance. We encourage the District Council to continue to monitor the compliance by the CCOs.
<b>Improvement in process - Water Safety performance measure</b> We recommend that the District Council reviews its process around the monitoring and review of its Water safety performance measure ensuring that an independent peer review is performed over the data uploaded into Water Online. We further recommend that the District Council uploads the data from the laboratory results into Water Online at least every quarter and review the results uploaded to those previously reported to SLT at least every quarter when the data is uploaded.	2019	<b>Management comment</b> <i>Water Services have purchased a water quality compliance reporting tool to ensure all quality data is effectively managed. Between the Lab staff, Water Services staff and the Drinking Water Assessors there is a review process that verifies results. However, the assessors are not always available on a quarterly basis to approve data for uploading.</i> <b>Audit comment</b> <b>Closed</b> We have not identified any issues during our testing.
<b>Beneficial</b>		
<b>Review of employee Code of Conduct</b> We recommend that the Employee Code of Conduct is reviewed and updated.	2016	<b>Management comment</b> <b>Complete</b> <i>The Employee Code of Conduct has been reviewed following consultation with Staff. The new code took effect from July 2019.</i> <b>Audit comment</b> <b>Closed</b> Employee Code of Conduct completed.



Recommendation	First raised	Status
<p><b>Controls over employee masterfile changes</b></p> <p>We recommended that the District Council implements an effective review process for employee masterfile changes. This could be achieved by implementing a one-up approval step in the system.</p> <p>Alternatively, a masterfile change report can be obtained from IT and independently reviewed on a regular basis, for example, after each pay run.</p>	2015	<p><b>Management comment</b></p> <p><i><b>Complete</b></i></p> <p><i>A new process has been set up whereby the P&amp;C Manager reviews the masterfile change report on a monthly basis. The process has been in place for 12 months.</i></p> <p><b>Audit comment</b></p> <p><b>Closed</b></p> <p>Confirmed process is in place.</p>

## Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audit, we have no relationship with, or interests in, the District Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$202,000, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$4000 for the Debenture Trust.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council or its subsidiaries during or since the end of the financial year.</p>

## AUDIT NEW ZEALAND

Mana Arotake Aotearoa

PO Box 1165  
Auckland 1140  
Phone: 04 496 3099

[www.auditnz.parliament.nz](http://www.auditnz.parliament.nz)





### RESOLUTION TO EXCLUDE THE PUBLIC

That the public be excluded from the following parts of proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

1.	The making available of information would be likely to unreasonably prejudice the commercial position of persons who are the subject of the information. {Section 7(2)(c)}
2.	To enable the council (the committee) to carry on without prejudice or disadvantage commercial negotiations. {(Section 7(2)(i))}.
3.	To protect the privacy of natural persons. {Section 7(2)(a)}.
4.	Publicity prior to successful prosecution of the individuals named would be contrary to the laws of natural justice and may constitute contempt of court. {Section 48(1)(b)}.
5.	To protect information which is the subject to an obligation of confidence, the publication of such information would be likely to prejudice the supply of information from the same source and it is in the public interest that such information should continue to be supplied. {Section 7(2)(c)(i)}.
6.	In order to maintain legal professional privilege. {Section 2(g)}.
7.	To enable the council to carry on without prejudice or disadvantage, negotiations {Section 7(2)(i)}.

### Resolution to allow members of the public to remain

If the council/committee wishes members of the public to remain during discussion of confidential items the following additional recommendation will need to be passed:

#### Move/Second

"That \_\_\_\_\_ be permitted to remain at this meeting, after the public has been excluded, because of his/her/their knowledge of Item \_\_\_\_\_.

This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because \_\_\_\_\_.

*Note:*

*Every resolution to exclude the public shall be put at a time when the meeting is open to the public.*