



NOTICE OF AN AUDIT AND RISK COMMITTEE MEETING

**Ōpōtiki District Council Chambers, 108 St John Street, Ōpōtiki
Thursday, 16 August 2018
Commencing at 10.00am**

ORDER PAPER

APOLOGIES

DECLARATION OF ANY INTERESTS IN RELATION TO OPEN MEETING AGENDA ITEMS

PUBLIC FORUM

	Page
ITEM 01 CONFIRMATION OF MINUTES – AUDIT AND RISK COMMITTEE MEETING 11 JUNE 2018	5
ITEM 02 ACTION SCHEDULE	9
ITEM 03 DRAFT LONG TERM PLAN MANAGEMENT REPORT	10
ITEM 04 DRAFT INTERIM MANAGEMENT REPORT	21
ITEM 05 RISK REPORT	39
ITEM 06 RESOLUTION TO EXCLUDE THE PUBLIC	40

PUBLIC EXCLUDED BUSINESS

ITEM 07 CONFIRMATION OF IN-COMMITTEE MINUTES – AUDIT AND RISK COMMITTEE MEETING 30 APRIL 2018	
ITEM 08 INFRASTRUCTURE ON PROPERTY UPDATE	
ITEM 09 PROPERTY MATTER	
ITEM 10 RESOLUTION TO RESTATE RESOLUTIONS AND READMIT THE PUBLIC	

STANDING ITEM:

RISK WORKSHOP –TO BE HELD AT THE CONCLUSION OF THE MEETING

Members: Cr Arihia Tuoro (Chairperson)

Cr Ken Young

Ex-Officio: Mayor John Forbes

Independent Member: David Love

Committee Secretary: Gae Newell

Quorum: 2

LOCAL AUTHORITIES (MEMBERS' INTERESTS) ACT 1968

Councillors are reminded that if you have a pecuniary or non-pecuniary interest in any item on the agenda, then you must declare this interest and refrain from discussing or voting on this item, and are advised to withdraw from the Council chamber.

Aileen Lawrie

CHIEF EXECUTIVE OFFICER

AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

1. The Audit and Risk Committee is a Committee of the Ōpōtiki District Council.
2. **Objective**

The objective of the Committee is to assist the Council in carrying out its duties in regard to financial reporting and legal compliance.
3. **Membership**

Chairperson: Councillor Tuoro
Members: Councillor Tuoro, Councillor Young
Ex-Officio: Mayor Forbes
Independent Member: David Love
4. **Meetings**
 - 4.1 A quorum is two members.
 - 4.2 The Committee shall meet as needed but in any event, at least annually.
 - 4.3 Notice of meetings shall be in accordance with the requirements set out in the Local Government Act 2002.
5. **Terms of Reference**

The Audit and Risk Committee will:

 1. *Review Council's annual financial statements with Council management and the Auditors prior to their approval by Council.*
 2. *Oversee statutory compliance in terms of financial disclosure.*
 3. *Monitor corporate risk assessment and internal risk mitigation measures and oversee:*
 - *Council's risk management framework*
 - *internal control environment*
 - *legislative and regulatory compliance*
 - *internal audit and assurance*
 - *oversee risk identification on significant projects*
 - *compliance to Treasury Risk Management Policies.*
 4. *Review the effectiveness of Council's external accountability reporting (including non financial performance).*
 5. *Conduct the process for the Chief Executive's Performance, for report to Council.*

6. *Draw to the attention of Council any matters that are appropriate.*
7. *Investigate and report on any matters referred to the Committee by Council. The circumstances the Council may refer matters to the Audit and Risk Committees include:*
 - a. *Any significant issues arising from the financial management of councils affairs.*
 - b. *Any complaints against elected members or alleged breaches of the Councils code of conduct.*
 - c. *Any significant issues arising from Audit New Zealand processes.*
 - d. *Due Diligence on strategic asset acquisition or disposal.*
 - e. *Setting up of Council Controlled Organisations.*
 - f. *Development of a Council risk assessment and mitigation strategies.*

6. **Authority**

- 6.1 The Committee is authorised to investigate any activity referred to it by Council resolution. It is authorised to seek any reasonable information it requires from Council staff.
- 6.2 The Committee is authorised by the Council to obtain outside legal or other independent professional advice and to arrange for the attendance at meetings of outside parties with relevant experience and expertise if it considers this necessary.



MINUTES OF AN ŌPŌTIKI DISTRICT COUNCIL AUDIT AND RISK COMMITTEE MEETING HELD ON MONDAY, 11 APRIL 2018 IN THE OPOTIKI DISTRICT COUNCIL CHAMBERS, 108 ST JOHN STREET, ŌPŌTIKI AT 10.00AM

PRESENT:

Councillor Arihia Tuoro (Chairperson)
Councillor Ken Young
David Love
Mayor John Forbes

IN ATTENDANCE:

Aileen Lawrie (Chief Executive Officer)
Bevan Gray (Finance and Corporate Services Group Manager)
Ari Erickson (Engineering and Services Group Manager)
Billy Kingi (Chief Financial Officer)
Gae Newell (Personal Assistant to CEO and Mayor)

APOLOGIES

Nil.

DECLARATION OF ANY INTERESTS IN RELATION TO OPEN MEETING AGENDA ITEMS

David Love noted that he is a Bay of Plenty Regional Councillor and is also a member of the Regional Council's Audit and Risk Committee.

The Chairperson noted her interest in relation to any matters relating to the Ōpōtiki Harbour Project as she is a director of Whakatōhea Mussels (Ōpōtiki) Limited.

Councillor Young noted his interest in relation to any matters relating to the Ōpōtiki Harbour Project as he is a shareholder of Whakatōhea Mussels (Ōpōtiki) Limited.

PUBLIC FORUM

Peter Warren

Peter Warren advised his attendance at the meeting was a follow up to his speaking to the 5 June 2018 Ordinary Council meeting.

In relation to wharf consent, Peter Warren stated that no consent is to go ahead. He further stated that consent is being given without the consent of the tangata whenua.

Peter Warren said that early on he had proclaimed to be the King of tangata whenua and there has been an Order for the Attorney-General to answer the questions he is now asking Council. He added that what he is doing is all for the good, all about running the country and all about a mandate – there can only be one mandate and that comes from the King.

The Chairperson thanked Peter Warren for his attendance.

The Chairperson declared an interest in the matters raised by Peter Warren in that her family has purchased the section next to Mr Warren's home.

1. CONFIRMATION OF MINUTES – AUDIT AND RISK COMMITTEE MEETING 30 APRIL 2018 **p5**

RESOLVED

- (1) That the minutes of the Audit and Risk Committee meeting held on 30 April 2018 be confirmed as a true and correct record.**

Love/Young

Carried

2. ACTION SCHEDULE **p23**

In response to a query as to whether Council should continue to bank with the ANZ, the Finance and Corporate Services Group Manager stated he will raise the issue of the local ANZ branch closure at the next BOPLASS meeting.

RESOLVED

- (1) That the Action Schedule be received.**

HWTM/Young

Carried

**3. DRAFT MANAGEMENT REPORT ON THE AUDIT OF THE LONG TERM PLAN
CONSULTATION DOCUMENT 2018-28**

p24

An amended Draft Management Report was tabled.

David Love requested that a letter be sent to the Bay of Plenty Regional Council to confirm the current position with the Harbour Development Project. He stated that it is important to recognise that Council has been given an unmodified opinion.

The Finance and Corporate Services Group Manager noted that an eye needs to be kept on debt level. With the amount of work, growth and infrastructure replacement taking place, Council will reach the 175% debt level.

A discussion ensued covering climate change, key stakeholders, population and the complexities around the central business district and revitalisation of that.

Some clarifications were sought from the Finance and Corporate Services Group Manager who advised that the matters raised had been tidied up. He also advised that he felt Council was ready for the audit of the final Long Term Plan, having sent all the underlying information to Audit New Zealand and made them aware of any changes, e.g. the FAR rate increase.

The Finance and Corporate Services Group Manager stated that the final Management Report will go to Council.

RESOLVED

- (1) **That the report titled "Draft Management Report on the Audit of the Long Term Plan Consultation Document 2018-28" be received.**
- (2) **That the management comments be approved and provided to Audit NZ to finalise the report.**

Young/Tuoro

Carried

4. RISK REGISTER REPORT MAY 2018

p41

David Love noted that this is a good start, although it is a very internal look.

The Finance and Corporate Services Group Manager agreed to catch up WITH David Love to discuss the report further.

RESOLVED

(1) That the report titled "Risk Register Report May 2018" be received.

Love/HWTM

Carried

5. KOHA REPORT

p44

RESOLVED

(1) That the report titled "Koha Report" be received.

HWTM/Young

Carried

THERE BEING NO FURTHER BUSINESS THE MEETING CLOSED AT 11.29AM.

**THE FOREGOING MINUTES ARE CERTIFIED AS BEING A
TRUE AND CORRECT RECORD AT A SUBSEQUENT IN-
COMMITTEE MEETING OF THE AUDIT AND RISK
COMMITTEE ON 16 AUGUST 2018.**

**COUNCILLOR ARIHIA TUORO
CHAIRPERSON**

Issue	Recommendation	Done	Assigned To	Status	Comments
21	Contract Management policy and Guidance	<input type="checkbox"/>	Ari Erickson	In Progress	Contract management processes are currently being built, upon completion a Policy will be assembled. AMP's have included necessary budgets to develop contracts and processes surrounding contracts.
22	Contract management oversight	<input type="checkbox"/>	Ari Erickson	In Progress	Training recently provided to team in relation to the contract module. Initial development of internal process is already underway with resource, structure and responsibility changes within the E&S department first on the agenda towards its development. ProMap champion will build processes. Potential contract manager position being assessed - consideration to funding systems and justification against 10 year works programme.
24	Project Management	<input type="checkbox"/>	Ari Erickson	In Progress	Project management framework has been drafted. To be further developed upon filling project manager role. Some significant changes required. Resources presently stretched due to Asset Manager position currently vacant. Project management policy, asset management policy and contract management policy will likely be assembled in conjunction as they are closely related.
27	Procurement	<input type="checkbox"/>	Ari Erickson	In Progress	Need to get fully familiar with new procurement policy. Policy currently being reviewed by NZTA. Assigned to Janan.
28	Qualified proposal evaluators	<input type="checkbox"/>	Ari Erickson	In Progress	Assigned to Janan
29	Procurement Strategy	<input type="checkbox"/>	Aileen Lawrie	Complete	Adopted at 30 June EO meeting
30	Contract Management	<input type="checkbox"/>	Ari Erickson	In Progress	Budget has been planned in three waters summary AMP to review and develop current service level contracts into comprehensive proactive maintenance contracts. Capital project contracts development is planned to be reviewed and revised as necessary alongside Policy development. Pending contract manager position conclusions or other dedicated resource.
31	Asset Management	<input type="checkbox"/>	Ari Erickson	In Progress	This will be undertaken ahead of year end being 30 June and incorporated in the Annual Report.
32	Asset Management	<input type="checkbox"/>	Ari Erickson	In Progress	There has been a lot of work done as a project to ensure this process is completed, as well as aiding the organisation to complete their compliance requirements in the most efficient manner. This process is very near to completion.
33	Asset Management	<input type="checkbox"/>	Ari Erickson	In Progress	This is under development as part of the asset management policy.
38	Legislative compliance	<input type="checkbox"/>	Tracey	In Progress	In terms of achievement towards community outcomes we have been pointed to Waikato District Council, can't find many other examples of this being done in Local Government.
39	Legislative compliance	<input type="checkbox"/>	Bevan Gray	In Progress	A review process will be developed for Annual Plans, and a draft set will be sent to audit for comment ahead of adoption to avoid this situation in future. A legal review of rates setting documentation was done this year.
40	Shand Report	<input type="checkbox"/>	Bevan Gray	Not Started	To have a look at once LTP is out for consultation
41	RRC's	<input type="checkbox"/>	Ari Erickson	In Progress	This is a continual development path to improvement.
42	Supplier Management	<input type="checkbox"/>	Bevan Gray	Complete	Have developed process where accounts payable confirms bank account changes that come through on invoice with supplier via phone.
43	Internal Loans	<input type="checkbox"/>	Bevan Gray	In Progress	This will be done as part of Annual Report process as it uses that same internal loan database
44	Conflicts of Interest	<input type="checkbox"/>	Bevan Gray	In Progress	Have sought information from other Councils on how they are approaching this from audit. Only a few responses so far. Overall a significant request for work to be completed by audit.
45	ANZ	<input type="checkbox"/>	Bevan Gray	Not Started	
46	Suspense accounts	<input type="checkbox"/>	Billy Kingi	Complete	This has been actioned, expect to be resolved when auditors are on site for the final audit. We don't think this was tested or reviewed when they were here for the interim.
47	Tolerance levels on PO's	<input type="checkbox"/>	Billy Kingi	In Progress	Tolerance levels are set at 10% or \$50, which ever is the lower, between the PO and what is receipted. We have left the tolerance level a bit higher than what others might have due to our location and the distance from most of our suppliers. This is generally to cover freight and shipping costs on top of procuring the goods. We think these are reasonable limits. Audit have provided no guidance on what limits they would want to see us reduce to.
48	Annual Report process	<input type="checkbox"/>	Billy Kingi	In Progress	All engagements with audit are planned in Smartsheet as projects. We will prepare a digital substantiation file again this year. We think we have sufficiently trained auditors in the use of smartsheet now, so the process should be significantly smoother this year.
49	Impairment assessment	<input type="checkbox"/>	Billy Kingi	In Progress	A memo with detailed schedules to asset managers will be emailed as part of the fixed assets year-end process, seeking their feedback as to what assets if any, may require specific impairment testing/assessments.



REPORT

Date : 6 August 2018
To : Audit and Risk Committee meeting, 16 August 2018
From : Finance and Corporate Services Group Manager, Bevan Gray
Subject : **DRAFT LONG TERM PLAN MANAGEMENT REPORT**
File ID : A142721

EXECUTIVE SUMMARY

The Draft Long Term Plan Management Report is provided by Audit NZ following the recent Long Term Plan audit undertaken in Council. Overall the Management Report provided by Audit is very positive. There were some issues experienced with timing around the time of the audit of the Consultation Document, however these were addressed and the final audit process ran extremely smoothly.

PURPOSE

To provide to the Committee the Draft Long Term Plan Management report from Audit NZ for review and comment.

BACKGROUND

Every three years the audit team spend a number of weeks within the organisation conducting an audit of the Long Term Plan (LTP). The LTP forms the basis of Council's financial direction for the next three years. It takes about a year to put an LTP together, and in some Councils this process can take three years with the next one starting as soon as the last one is adopted. We don't have that level of resource available, so our process is condensed down to one year.

Given the reliance on the LTP for the organisation and the public, there is a significant amount of consultation with the public required for an LTP process. And ultimately a considerable amount of work for auditors to undertake to ensure we have made the right assumptions ahead of setting the LTP.

Following each audit engagement the auditors provide Council with a management report outlining the findings of the audit. Council has an opportunity to respond to these findings and provide these back to the auditors. Overall the audit of the final LTP went very smoothly, and there are a number of positive comments included in the management report by Audit NZ.

SIGNIFICANCE ASSESSMENT

Assessment of significance

Under Council’s Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of significance for the Draft Long Term Plan Management Report is considered to be low as determined by the criteria set out in section 12 of the Significance and Engagement Policy.

Assessment of engagement requirements

As the level of significance for the Draft Long Term Plan Management Report is considered to be of low the level of engagement required is determined to be at the level of inform according to Schedule 2 of the Significance and Engagement Policy.



RECOMMENDATION:

- 1. That the report titled “Draft Long Term Plan Management Report” be received.**

Bevan Gray

FINANCE AND CORPORATE SERVICES GROUP MANAGER

#

Report to the Council on the audit of

Ōpōtiki District Council's

Long Term Plan for the period

1 July 2018 to 30 June 2028

Report to the Council

We have completed the audit of Ōpōtiki District Council's (the Council's) Long Term Plan for the period 1 July 2018 to 30 June 2028. This report sets out our findings from the audit and draws attention to our detailed findings, and where appropriate makes recommendations for improvement.

Contents

1#	Our audit opinion.....	3#
2#	Audit scope and objective.....	4#
3#	Control environment	4#
4#	Areas of audit emphasis.....	4#
5#	Project Management	7#
	Appendix 1: Mandatory disclosures.....	8#

Key messages

We have completed the audit of the Council's Long Term Plan (the LTP) for the period 1 July 2018 to 30 June 2028. We issued an unmodified opinion, with an emphasis of matter paragraph on 30 June 2018. We are satisfied that the LTP provides a reasonable basis for long-term, integrated decision making and coordination of the Council's resources, and provides a reasonable basis for accountability of the Council to the community.

An emphasis of matter paragraph was included in the opinion to draw the reader's attention to uncertainties over the cost, funding and timing of the Ōpōtiki Harbour Transformation project (the Harbour project) if the project does not proceed and the assumptions made about the Harbour project.

The Harbour project continues to be a significant matter for the Council. We understand the Council is in the process of reviewing its cost estimates and the design of the project. The LTP has been prepared on the assumption that Central Government will contribute funding to the Harbour project.

Following the consultation process, there were only minor changes made to the underlying information supporting the LTP. This meant the audit process for the LTP went a lot smoother than the audit of Council's Long Term Plan Consultation Document (the LTP CD). This was due to being better prepared for the final LTP audit, ensuring a quality first draft LTP was provided and early communication on the status of key issues that would impact the LTP.

Thank you

We would like to thank the Council, management and staff for their assistance during the audit.

Clarence Susan
Audit Director
17 July 2018

1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion with an emphasis of matter on the Council's LTP on 30 June 2018.

This means we are satisfied that the Council's LTP provides a reasonable basis for long-term, integrated decision making and coordination of the Council's resources, and provides a reasonable basis for accountability of the Council to the community.

We found the underlying information and assumptions used to prepare the LTP provided a reasonable and supportable basis for the preparation of the plan.

We have included an emphasis of matter paragraph in our opinion. This is to draw the reader's attention to important information and matters that need to be considered when reading the LTP. The emphasis of matter paragraph is further explained below.

1.2 Ōpōtiki Harbour Transformation Project

The Ōpōtiki Harbour Transformation Project (the Harbour project) continues to be a significant infrastructure project planned for the District. The Council has consulted on this project since the 2009-2019 LTP and has been working to progress this project since 2015. Part of this work included receiving \$3 million additional funding from the Government to further develop a detailed business case with updated costs and modelling. The outcome of that process was that the previous cost estimate had changed.

In May 2018, the Council received a decision from Central Government that it would not provide funding for the project at the revised forecast cost. However, Central Government had communicated to the Council that there is the potential for funding to be provided if the Council revises its projected cost estimates. Since that decision the Council has been in the process of reviewing the costs of the project.

The Council has some sensitivity around the contractor pricing and is subject to confidentiality whilst the tender price is still valid. This means that the Council is not in a position to disclose the updated figures per the new business case. The Harbour project is also still dependent on Central Government providing funding for the project to proceed.

The Council has included additional disclosures in the LTP outlining that the Council's financial contribution to the project remains at \$5.4 million and that if the costs of the project change, the Council intends to consult with the community again.

The Harbour project is financially significant and any changes to the timing or costs of the project could affect the Council's ability to deliver on the project included in the LTP. As a result we have included an emphasis of matter paragraph in the audit opinion to draw attention to the Council's disclosures.

1.3 Unadjusted misstatements

The LTP is free from material misstatements, including omissions. However, in the course of the audit, we found certain misstatements that are individually and collectively not material to the LTP.

We have discussed all misstatements that we found with management. All misstatements were amended prior to the Council adopting the LTP.

2 Audit scope and objective

The scope of our audit engagement and our respective responsibilities are contained in our audit engagement letter dated 24 October 2017.

3 Control environment

Our approach to the audit was to identify, confirm, and assess the Council's key processes and controls over the underlying information and ultimate production of the LTP. The purpose of this assessment was to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions.

We found that the overall control environment is reliable for the purposes of supporting the LTP.

4 Areas of audit emphasis

During the planning stage of the audit, and our review of the content of the LTP, we identified the following key risks and issues which were areas of emphasis during our audit. In this section of the report, we comment on our findings on those matters.

4.1 Wastewater reticulation upgrade

We identified that wastewater reticulation was a significant risk for the Council due to the size of its associated capital expenditure. This project has previously been consulted on with the public in the 2012-2022 LTP.

We understand the Council has completed an extensive investigation as to which is the best solution for the upgrade. We engaged our Specialist Assurance and Audit Services team to review the cost estimates and assumptions relating to the upgrade. We are satisfied that these assumptions are reasonable, supported and consistently applied through the financial model with adequate disclosure.

4.2 Financial Strategy

We reviewed the Council's Financial Strategy and considered whether it is financially prudent.

The Council's Financial Strategy has changed from the Strategy used in the 2015-2025 LTP. One of the key changes to the Strategy is that the Council has decreased the uniform annual general charge by \$20, this is to help alleviate some of the rates burden on low value properties.

Another key change is that the Council will utilise more external borrowing to fund capital expenditure work. The Council has done this so that it can spread the loan servicing cost over the useful life of the assets constructed in order to achieve better inter-generational equity. In prior LTPs, the Council has focused on reducing debt levels and keeping rates increases as low as possible so the Council had the capacity to invest in growth opportunities, such as the Harbour project, and be ready to deal with any opportunities or emergencies as they arise.

We reviewed the Financial Strategy and the links to the Infrastructure Strategy and are satisfied the Financial Strategy is financially prudent and is reflected in the forecast financial information.

In our Report to the Council on the audit of the LTP CD dated 8 June 2018, we identified two opportunities where the Council could improve its Financial Strategy, these haven't been taken up when completing the final Financial Strategy that formed part of Council's LTP, but we continue to recommend the Council considers these improvements during the development of its future Financial Strategy.

4.3 Infrastructure Strategy

We reviewed the Council's Infrastructure Strategy and are satisfied that it provides an overview of the Council's intentions regarding the management of its critical assets, including wastewater, stormwater, water supply, roading and significant works planned for the upcoming 30 years. The Strategy meets the requirements of section 101B of the Local Government Act 2002.

In the Report to the Council on the audit of the LTP CD dated 8 June 2018, we communicated some opportunities for improvement or to further reflect good practice in the Council's Infrastructure Strategy. We followed up with the Council on these improvements and are satisfied management has appropriately included these improvements in the Infrastructure Strategy in the LTP.

4.4 Assumptions

We reviewed and assessed the appropriateness of assumptions the Council has established as a basis for the development of the LTP. In particular, we tested:

- funding of the Ōpōtiki Harbour Development project (refer to section 1.2 above for further information);
- growth;
- inflation;
- climate change;
- future treasury changes;
- New Zealand Transport Agency subsidy rates;
- revaluation of infrastructure assets;
- useful lives of infrastructure and depreciation rates; and
- the development of commercial aquaculture industry and a navigable harbour entrance at Ōpōtiki.

Overall we are satisfied that significant forecasting assumptions are appropriately disclosed and were consistently applied in the final LTP.

4.5 Quality of asset-related forecasting information

During our testing we found asset management control is reliable for the purposes of supporting the LTP. This involved assessing the quality of asset management information and the accuracy, reliability, and supportability of the flow of information from asset management planning to the LTP. This is based on our review of the Council's self-assessment, a high level assessment of the asset management planning systems, the Council's asset management plans, review of the infrastructure strategy and discussions with staff involved in asset management planning.

4.6 Performance Framework

We reviewed the Council's Performance Framework at the consultation document stage and made a number of recommendations to management where improvements could be made to the Framework. We followed up as part of our review of the LTP document and are satisfied the Council has addressed our recommendations.

Overall, we assessed the performance management system, processes, and controls as adequate. We conclude that the levels of services and forecast performance are reasonable and link to the forecast financial information. The forecast Performance Framework is

adequate and will provide an appropriate framework for a meaningful assessment of actual levels of service provision delivered by the Council.

5 Project Management

The development of the LTP CD and LTP is a significant and complex project and a comprehensive project plan is required for a successful LTP process. The Council had a project plan in place that stated the key elements and timelines required to complete the LTP and underlying information.

The audit process for the LTP went a lot smoother than the audit of the LTP CD. We were provided a complete first draft of the LTP that incorporated all the changes as a result of deliberations. There was also early communication from the management updating us on the issues and changes that would be made to the LTP following Council's deliberations. This included decisions relating to the Harbour project that allowed us to plan the audit early so that our audit focused on the right issues.

Looking forward, Council should consider bringing the timelines forward for the preparation and decision making milestones of the LTP CD and final LTP document to allow greater contingency and more time for review of the underlying information to ensure it is of a higher quality.

If there are changes in the Harbour project assumption following Central Government's decision, the Council should inform us as soon possible so that we can determine what audit work will be required if an LTP amendment is required.

Appendix 1: Mandatory 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 2018-28 LTP and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.</p> <p>The audit of the LTP does not relieve management or the Council of their responsibilities.</p> <p>Our audit proposal and audit arrangements letter dated 24 October 2017 contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>, the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i>, and the Auditor-General's Auditing Standards.</p>
Auditor independence	<p>We confirm that, for the audit of the Council's LTP for the period 1 July 2018 to 30 June 2028, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>In addition to our work in carrying out all legally required external audits, we have provided an assurance report on certain matters in respect of the Council's Debenture Trust Deed. This assignment is compatible with the independence requirements of the Auditor-General. Other than this assignment, we have no relationship with or interests in the Council.</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 Council 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 Council during or since the end of the financial year.</p>
Unresolved disagreements	<p>We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the LTP. Management has not sought to influence our views on matters relevant to our audit opinion.</p>

REPORT

Date : 6 August 2018

To : Audit and Risk Committee meeting, 16 August 2018

From : Finance and Corporate Services Group Manager, Bevan Gray

Subject : **DRAFT INTERIM MANAGEMENT REPORT**

File ID : A142687

EXECUTIVE SUMMARY

The Draft Interim Management Report is provided by Audit NZ following the recent interim audit undertaken in Council. It raises issues identified during the audit process and provides staff and councillors an opportunity to respond to them. Staff have added any new issues to the Action Schedule for continual monitoring and improvement.

PURPOSE

To provide to the Committee the Draft Interim Management report from Audit NZ for review and comment.

BACKGROUND

Every year the audit team spend two weeks within the organisation conducting the interim audit before the final audit is undertaken. The results of this audit determine the approach that will be used during the final audit.

Following each audit engagement the auditors provide Council with a management report outlining the findings of the audit. Council has an opportunity to respond to these findings and provide these back to the auditors.

DISCUSSION AND OPTIONS SECTIONS

Staff expect a number of these items to drop off the report as we go through the final audit. Recommendations raised by auditors will be included into the action schedule for Audit and Risk Committee review at committee meetings.

SIGNIFICANCE ASSESSMENT

Assessment of significance

Under Council’s Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of significance for the Draft Interim Management Report is considered to be low as determined by the criteria set out in section 12 of the Significance and Engagement Policy.

Assessment of engagement requirements

As the level of significance for the Draft Interim Management Report is considered to be of low the level of engagement required is determined to be at the level of inform according to Schedule 2 of the Significance and Engagement Policy.



Risks

Some of the items listed within the report are considered risks to the controls contained within the financial system, it is important that any significant issues are dealt with promptly.

Staff have added all of the issues raised within the report to the Audit and Risk Action Schedule for continual monitoring and review.

RECOMMENDATIONS:

- 1. That the report titled “Draft Interim Management Report” be received.**
- 2. That the proposed responses to the items raised be approved.**

Bevan Gray

FINANCE AND CORPORATE SERVICES GROUP MANAGER

Report to Council on the interim audit of
Ōpōtiki District Council
for the year ending 30 June 2018

Key messages

We have completed our interim audit of Ōpōtiki District Council (the District Council) for the year ending 30 June 2018. The primary purpose of our interim audit was to update our understanding of the District Council's control environment and to gain a better understanding of the issues facing the District Council and how these are being addressed.

We performed a high level review of the District Council's control environment. We considered the overall attitude, awareness, and actions of management in establishing and maintaining effective internal controls. We are still in the process of reviewing the new payroll system. Our findings will be reported in the final management report. We identified areas where we believe the control environment can be enhanced. These areas are detailed in this report.

We also followed up on the status of issues raised in previous audits. Management is making progress in addressing these issues. This is detailed further in Appendix 2.

Issues identified during the audit

The following table summarises our recommendations and their priority:

Recommendation	Urgent	Necessary	Beneficial
Resource recovery centre Controls are improved at the centres to ensure total takings collected for the day agree to the cash register receipt. Explanations for any differences should also be provided. See section 2.1.		✓	
Expenditure masterfile changes Changes to supplier bank accounts are based on a bank deposit slip or bank statement from the supplier. See section 2.2.		✓	
Interest on internal loans Management reviews the internal loans model to ensure formulas are calculating the opening balances correctly. See section 2.3.			✓

There is an explanation of the priority rating system in Appendix 1.

Thank you

We would like to thank the Council and management for their assistance during the interim audit.

Clarence Susan
Director
18 June 2018

DRAFT

Contents

1	Assessment of your control environment	4
2	Issues arising from the audit.....	5
3	Summary of previous recommendations	6
	Appendix 1: Explanation of priority rating system.....	7
	Appendix 2: Status of recommendations followed up as part of the interim audit	8
	Appendix 3: Outstanding matters to be followed up at the final audit.....	12

DRAFT

1 Assessment of your control environment

We have performed a high level assessment of the District Council's control environment. We have also performed an assessment of controls in place within key financial and non-financial systems.

Our assessment of internal control was performed for the purpose of planning the most effective and efficient audit approach, to enable us to express an audit opinion on the District Council's financial statements and performance information. It is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

When assessing the control environment we considered the overall attitude, awareness, and actions of Council and management in establishing and maintaining effective entity level management procedures and internal controls, as well as ensuring compliance with significant legislative requirements.

When assessing controls in place within key financial and non-financial systems, we considered the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting.

In performing this assessment we consider both the "design effectiveness"¹ and "operational effectiveness"² of internal control. Both "design effective" and "operationally effective" internal control is important in minimising the risk of either fraud or misstatement occurring.

The responsibility for the effective design, implementation and maintenance of internal control rests with Council.

In performing this assessment we have identified areas where we believe internal control can be enhanced. These matters are detailed in the following sections of this report.

This is in addition to recommendations we have made in previous years which remain open. The details of these recommendations and progress made in response are included in Appendix 2 of this report.

¹ Control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information. The control is "fit for purpose".

² Control has operated effectively throughout the period tested.

2 Issues arising from the audit

2.1 Refuse recovery centre

We reviewed the Daily Takings Spreadsheet that is used to record the Refuse Recovery Centre revenue collected for the day. We identified a number of instances where the total takings for the day did not agree to the till receipt. Majority of these instances is where there was more cash on hand than what had been recorded in the cash register. Some of these instances had explanations for these movements but not all differences had been explained.

We recommend the District Council improves the controls regarding revenue at the refuse recovery centres. This should be around ensuring that all revenue that should be recorded is captured. Staff should also provide detailed explanations for all variances identified.

Management comment

This has been and continues to be an area of ongoing focus and development. We have made a number of improvements to processes, software, tools, and controls, and we will continue to provide training until we are comfortable this issue has been addressed.

2.2 Supporting documentation for expenditure masterfile changes

During our review of the District Council's expenditure system, we noted that currently Council accepts bank account changes as advised on the invoice from the supplier. We also noted that there is no follow up with the supplier to provide a bank deposit slip or bank statement confirming the bank account details.

We recommend that the District Council ensure any bank changes for suppliers is based on a bank deposit slip or a bank statement from the supplier. This will ensure only valid changes are being made to supplier details.

Management comment

Council will look to confirm changes to bank accounts with suppliers. We have had no instances of any bank account number changes being made fraudulently or the supplier would have contacted us for the missed payment.

2.3 Calculation of interest on internal loans

We performed a walkthrough of the calculation of interest of an internal loan. We noted that the new loan spreadsheet, within the financial model developed through the 2018-28

LTP process, is calculating the opening balance incorrectly. This is because the formula is not deducting the repayments made during the year.

We recommend that management reviews the internal loans model and ensure that the formulas are calculating the opening balances correctly.

Management comment

We will review the internal loan calculations as part of the annual report process. These are non-cash journals that have no monetary impact on Council. But agree are important to ensure accuracy of the activity statements.

3 Summary of previous recommendations

Set out below is a summary of the priority of new recommendations raised during the current year's interim audit as well as the status and priority of prior year recommendations.

The details of prior year recommendations not already discussed in this report are contained in Appendix 2.

	Priority				Total
	Urgent	Necessary	Beneficial		
New matters	-	2	1		3
Prior year matters still outstanding	1	2	-		3
Prior year matters in progress	1	1	-		2
Matters to be followed up in the final audit	6	8	1		15
Total open or outstanding matters	8	13	2		23
Cleared matters	1	1	1		3

Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short Ōpōtiki DC is from a standard that is appropriate for the size, nature, and complexity of its business. We have developed the following ratings for our recommendations:

Urgent

Major improvements required

Needs to be addressed *urgently*

These recommendations relate to a serious deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm.

Necessary

Improvements are necessary

Address at the earliest reasonable opportunity, *generally within six months*

These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.

Beneficial

Some improvement required

Address, *generally within six to 12 months*

These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weakness that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.

Appendix 2: Status of recommendations followed up as part of the interim audit

Outstanding matters

Recommendation	Current status	Priority	Management's proposed action
Conflict of interest			
We recommended the District Council updates the interest register for elected members and staff to record the nature of the interest, type of conflict and the mitigating actions to manage that conflict.	No progress has been made. We continue to recommend the District Council update their interest register. Outstanding.	Urgent	The interests register is updated regularly. Our response to this issue was that we would not take on these recommendations because each interest and conflict is different and needs to be dealt with on a case by case basis. There is no way that one can pre-empt all of the possible conflicts for the interest, or put mitigating measures in place for all of them. This is unrealistic and a wasteful use of resource. Council recommends again that Audit NZ remove this recommendation from their management report.

Recommendation	Current status	Priority	Management's proposed action
Capitalisation policy for property, plant and equipment			
We recommended that the District Council implements an asset capitalisation policy on the minimum amount of assets that will be capitalised as well as guidance for the type of expenditure to capitalise to ensure the District Council is capitalising genuine assets.	An asset capitalisation policy is in the process of being drafted by the finance team. Outstanding.	Necessary	This is in process, however due to resourcing shortages in the Engineering team this has not been completed. There will be an Asset Management Working Group set up within the organisation to review and implement.
Suspense accounts			
We recommended the District Council prepares and evidences the review of suspense account reconciliations, in particular following up outstanding items that exist for a period greater than one month.	No progress has been made. There continues to be a number of outstanding items. Outstanding.	Necessary	This has been actioned, the Asset and Management Accountant reviews suspense accounts and provides reconciliations on a monthly basis. This should have been viewed during the interim audit, but obviously was not. Further progress has been made since the interim audit, we expect this to be resolved during the final audit.

Matters that have been partially resolved

Recommendation	Current status	Priority	Management's proposed action
----------------	----------------	----------	------------------------------

Recommendation	Current status	Priority	Management's proposed action
High tolerance limits on purchase order variations			
We recommended system enforced tolerance limits for purchase orders, receipts and invoiced amounts are reviewed and limits reduced to ensure compliance with generally accepted leading practice.	The District Council has implemented enforced tolerance limits of 10% between the purchase order and receipt and \$50 between receipt and invoice. We continue to recommend the District Council reconsiders the tolerance limit of 10% between the purchase order and receipt. Partially resolved.	Urgent	Council is comfortable with the tolerance limits set on purchase orders, and recommends that Audit New Zealand removes this from the management report.
Property, plant and equipment reconciliations			
We recommended the District Council performs monthly reconciliations between the fixed asset register and the general ledger. These reconciliations should be independently reviewed.	Monthly reconciliations have not been performed. The District Council has employed an external contractor to reconcile the fixed asset register to the general ledger before year end. Going forward, the District Council plans to perform reconciliations quarterly. Partially resolved.	Necessary	Council has invested a lot of resource over the last two years into asset management and integration with the finance system. We expect to address this issue throughout this annual report process and going into the 2019 year resource dependent.

Matters that have been resolved

Recommendation	Outcome
Self-approval of expenditure	
We recommended the District Council's delegations should restrict staff from approving payments where they have also raised the purchase order. Approval should be on a "one up basis".	Staff are unable to raise and self-approve a purchase order in the EPO system. Matter resolved.

Recommendation	Outcome
Sensitive expenditure policy	
<p>We recommended the sensitive expenditure policy is updated to include the above so it is in line with the Office of the Auditor General's (the OAG's) best practice guidelines.</p>	<p>The Sensitive Expenditure Policy has been updated to include good practice guidelines for credit card expenditure.</p> <p>Matter resolved.</p>
New suppliers	
<p>We recommended the new suppliers process could be strengthened by the District Council if they implemented the following:</p> <ul style="list-style-type: none"> • review the Companies Register to confirm existence of the Company; • enquire with the IRD to ensure the GST number is valid; and • check to see if there is a Company website. 	<p>The supplier application form includes screenshots of the District Council's review of the Companies Register. The form also requires a GST number and appropriate bank details to be included on the form.</p> <p>Matter resolved.</p>

Appendix 3: Outstanding matters to be followed up at the final audit

Recommendation	Priority
Annual report process	
We recommended that the annual report process is planned and scheduled on a project basis and closely monitored to ensure milestones are met. The process should include the preparation of a substantiation file that includes copies of relevant documents and workpapers to support information in the annual report.	Urgent
Contract management	
<p>Our review of contract management identified the following areas for improvement:</p> <ul style="list-style-type: none"> ensuring that the District Council has an up to date policy and guidance covering contract management activities. This should include comprehensive procedures and standardised templates which allow for consistency in how contracts are managed throughout the District Council. The Policy should also provide clarity in relation to scope management of the contract. This includes expectations around variations, approach to the use of contingencies, and requirements around budget management; having an individual or team in place with responsibility for oversight of contract management activities. This person or team should be experienced in the management of contracts. To ensure that they are also up to date with changes in contract management requirements, they should also be receiving regular training/development to maintain the currency of their knowledge; and to put in place a centralised contract management system which captures all contract information. Ideally, this system should also have capabilities to link to the FMIS/payment system. Data captured on this system should include contract performance against expectations, budget against actual financial forecasts, and payment information. 	Urgent
Project management	
We recommended the District Council implements a robust and reliable project management system that to manage major capital expenditure projects.	Urgent
High number of superusers	
We recommended the District Council performs a review of superuser access to Ozone and reduces the number.	Urgent

Recommendation	Priority
Generic superuser accounts	
We recommended that generic (shared) login accounts are removed and all required users have individual login accounts. A process should also be established for ensuring vendor's access is limited to current required staff only.	Urgent
Sensitive expenditure transactions	
We recommended the District Council reminds staff and elected members of the importance of retaining itemised tax invoices to support all expense claims made. We also recommended the District Council considers whether its current sensitive expenditure policy reflects actual business practices.	Urgent
Changes to the rules for retention money for construction contracts	
<p>We recommended the District Council considers the following to ensure compliance with the amended Construction Contracts Act:</p> <ul style="list-style-type: none"> • reviewing current accounting processes and implements changes as necessary to comply with the requirement for keeping proper records of all retention money. This may include opening separate accounts for retentions for larger construction projects in particular; • ensuring that processes are in place to manage requests from contractors to inspect accounting records; • reviewing the current construction contracts to ensure the contracts do not contain prohibited provisions in respect of the retention money and make amendments as necessary; and • accepting alternative means of security (for example, retention bonds) for remedying of defects instead of cash retentions. 	Necessary
Impairment of property, plant and equipment	
We recommended that the District Council performs a formal impairment assessment over assets held at cost to ensure they are measured at the lower of cost and recoverable amount.	Necessary
Community outcomes reporting	
We recommended the District Council implements appropriate processes to ensure compliance with legislation, for example, ensuring the annual report includes the results of any measurement undertaken during the year of progress towards the achievement of community outcomes.	Necessary
Review of the 2017/18 Annual Plan	
We recommended the District Council implements a formal process to ensure compliance with key legislative requirements for Annual Plans.	Necessary

Recommendation	Priority
Ability to delete journals from the general ledger	
We recommended that supporting documentation is retained for all journals deleted and a report detailing deleted journals is run on a monthly basis. This report should be independently reviewed against the supporting documentation to give the District Council assurance that the potential for fraud or error is mitigated.	Necessary
Inconsistencies with the Funding Impact Statements (FIS) and the rates resolution	
We recommended that the District Council implements formal processes to ensure that the FIS and rates resolution are consistent going forward.	Necessary
Asset management plans (AMPs)	
We recommended the Council ensures AMPs are updated on a continuous basis to reflect the movements in infrastructure assets.	Necessary
Historical payables balance	
We recommended that the District Council seeks to reduce the balances of the liabilities by contacting the parties concerned to arrange a refund of the monies. If this is not possible, we recommended the Council clears these balances.	Necessary
New Zealand Local Government Funding Agency financial covenants	
We recommended that the District Council implements appropriate processes to ensure the District Council is regularly monitoring compliance with the financial covenants imposed by the LGFA.	Beneficial

RISK REPORT

Inherent Risk

Likelihood#	3 Moderate	4 Major	Total
3 Quite possible		14	14
4 Likely		3	3
5 Highly likely	3	5	8
Total	3	22	25

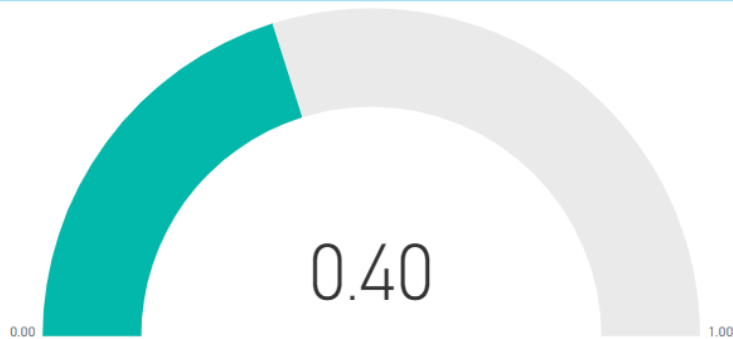
Residual Risk

Residual Likelihood#	3 Moderate	4 Major	Total
1 Highly unlikely	1		1
2 Unlikely	5	7	12
3 Quite possible	7	2	9
4 Likely	2	1	3
Total	15	10	25

Risks

Title	Inherent Rating	Residual Rating
Community not equipped to manage and respond to growth effectively	high	med high
Conflicts of interest of Council members affects decision making process of Council	high	medium
Council members do not fulfil their roles and responsibilities	med high	medium
Inappropriate behaviours of Council members	medium	medium
Inappropriate management of organisation	medium	Med Low
Inappropriate process of appointing and managing process of appointing Chief Executive	medium	low
Ineffective Council leadership	medium	Med Low
Ineffective governance	high	medium
Infrastructure Assets are taken out of Community Control/Ownership	medium	medium
Needs of stakeholders are not met	high	medium
Not being able to attract resources to the district	med high	medium
Organisation not equipped to manage and respond to growth effectively	med high	medium
Pursuing inappropriate business strategies	med high	medium
Relevant information not reported to Council and/or advice does not meet standard	medium	medium

Treatment Effectiveness



Risks to be Reviewed this Year

Year	Quarter	Title
2018	Qtr 2	Conflicts of interest of Council members affects decision making process of Council
2018	Qtr 2	Ineffective Council leadership
2018	Qtr 4	Infrastructure Assets are taken out of Community Control/Ownership

Portfolio Selection

- Portfolios
- Finance
 - Finance;Governance Contro...
 - Governance Control and Co...
 - Governance Control and Co...
 - Information Management
 - Operations and Service Deli...
 - People
 - Project
 - Property and Assets

REPORT

Date : 3 August 2018

To : Audit and Risk Committee Meeting, 16 August 2018

From : Chief Executive Officer, Aileen Lawrie

Subject : **RESOLUTION TO EXCLUDE THE PUBLIC**

SECTION 48 LOCAL GOVERNMENT OFFICIAL INFORMATION & MEETINGS ACT 1987

THAT the public be excluded from the following parts of the proceedings of this meeting, namely:

- 7. Confirmation of In-Committee Minutes – Audit and Risk Committee Meeting 30 April 2018.**
- 8. Infrastructure on Property Update.**
- 9. Property Matter.**

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:

Item No	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
7.	Confirmation of In-Committee Minutes – Audit and Risk Committee Meeting 30 April 2018	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)
8.	Infrastructure on Property Update	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)

9.	Property Matter	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)
----	------------------------	---	------------------

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act or section 6 or section 7 or section 9 of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows:

7.	Maintain effective conduct of public affairs Protect information Protect the privacy of natural persons	Section 7(2)(f)(i) & (ii) Section 7(2)(b)(i), (d) and (e) Section 7(2)(a)
8.	Protect the privacy of natural persons Protect information Free and frank expression of opinions Protection from improper pressure or harassment Carry out negotiations	Section 7(2)(a) Section 7(2)(b)(ii) Section 7(2)(f)(i) Section 7(2)(f)(ii) Section 7(2)(i)
9.	Protect the privacy of natural persons Protect information Free and frank expression of opinions Protection from improper pressure or harassment	Section 7(2)(a) Section 7(2)(b)(ii) Section 7(2)(f)(i) Section 7(2)(f)(ii)