



A G E N D A

Finance, Audit and Risk Committee

**Council Chambers
36 Weld Street
Hokitika**

**Thursday 27 September 2018
Commencing at 9.30 am**

Deputy Mayor L.J. Martin – Chairperson
His Worship the Mayor R.B. Smith
Deputy Mayor Cr H.M. Lash
Crs D.L. Carruthers, Gray Eatwell, J.A. Neale,
D.M.J. Havill ONZM, G.L. Olson, D.C. Routhan
Kw. Francois Tumahai, Te Rūnanga o Ngāti Waewae
Kw. Tim Rochford, Te Rūnanga o Makaawhio



FINANCE, AUDIT AND RISK COMMITTEE

AGENDA FOR A MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE, TO BE HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON THURSDAY 27 SEPTEMBER 2018 COMMENCING AT 9.30 AM

COUNCIL VISION

We work with the people of Westland to grow and protect our Communities, our Economy and our unique natural environment.

Purpose:

The Council is required to give effect to the purpose of local government as prescribed by section 10 of the Local Government Act 2002. That purpose is:

- (a) To enable democratic local decision-making and action, by and on behalf of, communities; and
- (b) To meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

1. MEMBERS PRESENT, APOLOGIES AND INTEREST REGISTER:

1.1 Apologies & Leave of Absence

1.2 Interest Register

2. CONFIRMATION OF MINUTES:

2.1 Finance, Audit and Risk Committee Meeting Minutes – 23 August 2018

3. REPORTS FOR INFORMATION:

3.1 Financial Performance Report August 2018 Pages 8 -19

3.2 Audit Management Report LTP 2018 - 2028 Pages 20 - 42

3.3 Interim Audit Management Year End 30 June 2018 Report Pages 43 - 64

3.4 Update on Annual Report Result 2017-2018 Pages 65 - 69

4. ITEMS FOR DISCUSSION:

4.1 Finance, Audit and Risk Committee Rolling Workplan Page 70

5. MATTERS TO BE CONSIDERED IN THE 'PUBLIC EXCLUDED SECTION'

Resolutions to exclude the public: Section 48, Local Government Official Information and Meetings Act 1987.

Council is required to move that the public be excluded from the following parts of the proceedings of this meeting, namely:

5.1 Confidential Minutes – 23 August 2018

The general subject of the matters to be considered while the public are 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 the resolution are as follows:

Item No.	Minutes/ Report of	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
5.1	Confidential Minutes – 23 August 2018	Confidential Minutes	Good reasons to withhold exist under Section 7	Section 48(1)(a) & (d)



Finance, Audit and Risk Committee Minutes

MINUTES OF A MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE OF WESTLAND DISTRICT COUNCIL, HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON THURSDAY 23 AUGUST 2018 COMMENCING AT 9.30AM

1. MEMBERS PRESENT, APOLOGIES AND INTEREST REGISTER:

1.3 Members Present

Deputy Mayor Cr L.J. Martin (Chair)

His Worship the Mayor R.B. Smith, Deputy Mayor Cr H.M Lash, Cr D.M.J. Havill (ONZM), Cr J.A. Neale, Cr Gray Eatwell, Cr G.L Olson, Cr R.C Routhan Kw. Francois Tumahai, Te Rūnanga o Ngāti Waewae
Kw. Tim Rochford Te Rūnanga o Makaawhio

Apologies & Leave of Absence

Nil

Staff in Attendance:

S.R. Bastion, Chief Executive; L.A. Crichton, Group Manager: Corporate Service, J. Ebenhoh, Group Manager: Community, Planning & Environment, D.R Inwood, Group Manager: District Assets, V.M Watson; Committee Secretary.

1.2 Interest Register

The Chair Deputy Mayor Martin circulated the Interest Register and no amendments were noted.

2. CONFIRMATION OF MINUTES:

2.1 Confirmation of Minutes Finance, Audit and Risk Committee Meeting - 26 July 2018

Moved Cr Havill, seconded Deputy Mayor Lash and **Resolved** that the Minutes of the Finance, Audit and Risk Committee Meeting held on the 26 July 2018 be confirmed as a true and correct record of the meeting.

3. REPORTS FOR INFORMATION

3.1 Financial Performance July 2018

The Group Manager: Corporate Services spoke to this report.

Recommendation that council receives the Financial Performance Report to 31 July 2018.

Moved Cr Neale, seconded Kw. Tumahai and **Resolved** that the Finance Audit and Risk Committee receives the Financial Performance Report to 31 July 2018.

3.2 Financial Year End to 31 July 2018

The Group Manager: Corporate Services gave a verbal report

Update of progress with work continuing to the finalization of the end of the financial year July 31 2018.

- Audit arrive 24 September to check and Audit financials.
- Final figures will be available for the October meeting.

Moved Cr Olson, seconded Kw. Rochford and **Resolved** that the Finance Audit and Risk Committee receives the verbal update of the financial year end.

4. REPORTS FOR DECISION

4.1 Insurances for 3 Months July – November 2018

The Group Manager: Corporate Services spoke to this report.

Moved Deputy Mayor Lash, seconded Cr Neale and **Resolved** that the Finance Audit and Risk Committee receives approve the renewal of material damage, liability and

indemnity insurances as proposed by Aon for the months from June 30 2018 to 1 November 2018 of \$ 79,282.00 excluding GST.

5. ITEMS FOR DISCUSSION:

5.1 Finance, Audit and Risk Committee Rolling Workplan

Moved Cr Eatwell, seconded Cr Neale and **Resolved** that the Finance Audit and Risk Committee August Rolling Workplan be received.

6. MATTERS TO BE CONSIDERED IN THE 'PUBLIC EXCLUDED SECTION'

Moved Deputy Mayor Lash seconded Kw. Rochford and **Resolved** that the Finance, Audit and Risk Committee confirm that the public were excluded from the meeting in accordance with Section 48, Local Government Official Information and Meetings Act 1987 at 09:56am.

Council is required to move that the public be excluded from the following parts of the proceedings of this meeting, namely:

6.1 Confidential Minutes – 26 July 2018

The general subject of the matters to be considered while the public are 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 the resolution are as follows:

Item No.	Minutes/ Report of	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
6.1	Confidential Minutes – 26 July 2018	Confidential Minutes – Finance, Audit and Risk Committee	Good reasons to withhold exist under Section 7	Section 48(1)(a) & (d)

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

No.	Item	Section
6.1	Protect the privacy of natural persons, including that of deceased natural persons.	Section 7(2)(a)

	Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	Section 7(2)(i)
6.2	Protect the privacy of natural persons, including that of deceased natural persons.	Section 7(2)(a)

Deputy Mayor Lash, seconded His Worship the Mayor R.B Smith and **Resolved** that the business conducted in the "Public Excluded Section" be confirmed and accordingly the meeting went back to the open part of the meeting at 09:59am

MEETING CLOSED AT 09:59 AM

Confirmed by:

Deputy Mayor Latham Martin
Chair – Finance, Audit and Risk Committee

Date

MEETING CLOSED AT 10.58 AM

Report



DATE: 27 September 2018
TO: Mayor and Councillors
FROM: Finance Manager

FINANCIAL PERFORMANCE: AUGUST 2018

1 SUMMARY

- 1.1 The purpose of this report is to provide an indication of Council's financial performance for one month to 31 August 2018.
- 1.2 This issue arises from a requirement for sound financial governance and stewardship with regards to the financial performance and sustainability of a local authority.
- 1.3 Council seeks to meet its obligations under the Local Government Act 2002 and the achievement of the District Vision adopted by Council as part of the Long Term Plan 2018-28. These are stated on Page 2 of this agenda.
- 1.4 This report concludes by recommending that Council receive the financial performance report to 31 August 2018, attached as **Appendix 1**.

2 BACKGROUND

- 2.1 Council receives monthly financial reporting so that it has current knowledge of its financial performance and position against targets and objectives adopted in the Long Term Plan 2018-28.

3 CURRENT SITUATION

- 3.1 Council now receives a monthly financial summary report in a consistent format.

3.2 The Financial Performance Report to 31 August 2018, is attached as **Appendix 1** and contains the following elements:

3.2.1 Segmental graphs for net cost of services, operating revenue and expenditure with the addition of the actual amounts.

3.2.2 Update on Rates Debtors.

3.2.3 Whole of Council Cost of Service Statement.

3.2.4 Variance analysis

3.2.5 Council approved unbudgeted expenditure

3.2.6 Debt report including budgeted debt, forecast debt and actual debt.

3.2.7 Capital Expenditure 2018-19

4 OPTIONS

4.1 Council can decide to receive or not receive the report.

5 SIGNIFICANCE AND CONSULTATION

5.1 This report is for information only and, while feedback is invited from Council in order for staff to continuously improve the quality of information provided, no assessment of significance or consultation and no options analysis is required.

6 RECOMMENDATION

A) **THAT** Council receives the Financial Performance Report to 31 August 2018

Lavinia Hamilton
Finance Manager

Appendix 1: Financial Performance August 2018



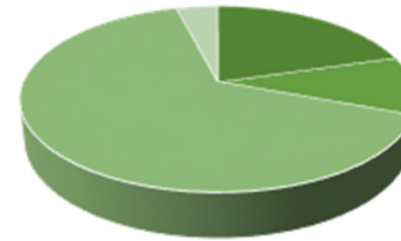
Financial Performance August 2018

Operating revenue Actual year to August



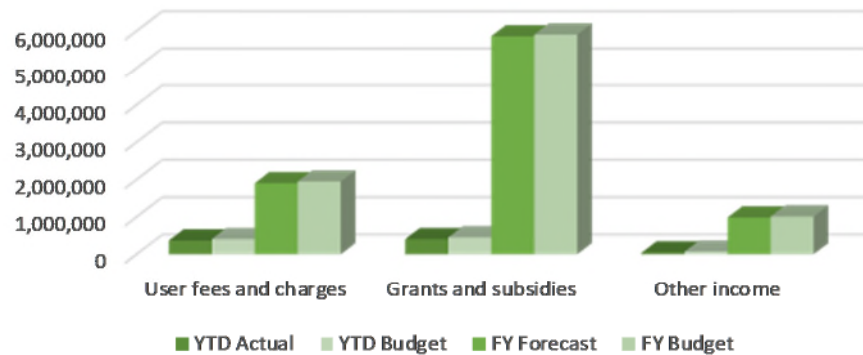
■ User fees and charges ■ Grants and subsidies ■ Other income

Operating expenditure Actual year to August

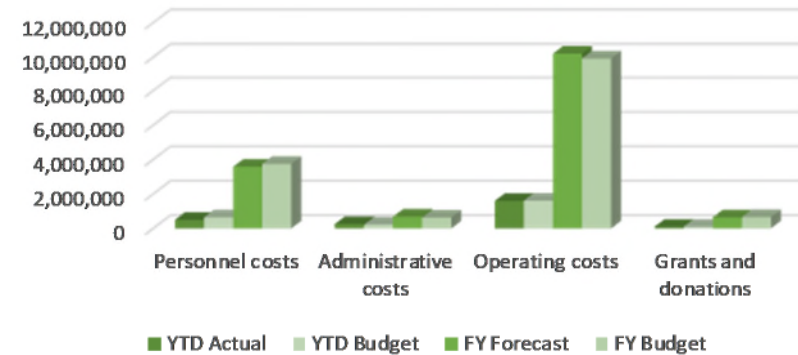


■ Personnel costs ■ Administrative costs ■ Operating costs ■ Grants and donations

Operating revenue



Operating expenditure



Column#1	User fees & Charges	Grants & Subsidies	Other Income
Actual YTD	368,647	402,763	43,922
Budget YTD	403,598	451,149	69,280
Variance	(34,951)	(48,385)	(25,358)
FY Forecast	1,901,728	5,855,879	983,655
FY Budget	1,945,649	5,904,264	1,009,013

Column#1	Personnel	Administration	Operating	Grants & donations
Actual YTD	499,781	249,083	1,593,439	99,555
Budget YTD	640,894	217,895	1,616,714	100,585
Variance	(141,113)	31,188	(23,276)	(1,030)
FY Forecast	3,579,371	685,398	10,209,333	646,860
FY Budget	3,749,231	638,573	9,921,209	656,620

Rates Debtors

Rates Debtors at 31 July 2018		3,753,560
Rates instalment	26,366	
Less payments received	- 3,713,798	
Paid in advance	1,175,300	
Previous years write off's	- 833	
Write off's	- 38,960	
Penalties	- 51	
Discounts	- 35,874	
Court costs awarded	51,985	
		-2,535,426
Total Rates Debtors at 31 August 2018		1,217,694
Arrears included above at 31 August 2018	1,217,694	
Arrears at 31 August 2017	1,354,696	
Increase/(decrease) in arrears		-137,002

Debt Management August 2018

Rates Debt - Aged at 31 August 2018

Financial Year	Aug-18	Aug-17	Jul-18
Pre 2015	131,952	193,434	133,035
2015-16	53,107	90,848	53,521
2016-17	70,499	366,621	76,098
2017-18	316,626	703,793	354,008
Current	645,511	-	3,136,896
Total	1,217,694	1,354,696	3,753,560

WESTLAND DISTRICT COUNCIL	Year to August			Full Year 2018-2019	
	Actual	Budget	Variance	FY Forecast	Budget
Operating revenue					
Rates (includes targeted rates and metered water)	3,205,212	3,171,577	33,635	15,706,193	15,706,106
User fees and charges	368,647	403,598	(34,951)	1,901,728	1,945,649
Grants and Subsidies	402,763	451,149	(48,385)	5,855,879	5,904,264
Other income	43,922	69,280	(25,358)	983,655	1,009,013
Overhead recoveries	1,245,918	1,195,925	49,993	7,225,541	7,175,548
Total revenue (A)	5,266,461	5,291,527	-25,066	31,672,995	31,740,580
Operating expenditure					
Personnel costs	499,781	640,894	(141,113)	3,579,371	3,749,231
Administrative costs	249,083	217,895	31,188	685,398	638,573
Operating costs	1,593,439	1,616,714	(23,276)	10,209,333	9,921,209
Grants and donations	99,555	100,585	(1,030)	646,860	656,620
Overheads	1,241,474	1,186,667	54,807	7,280,813	7,118,134
Total operating expenditure (B)	3,683,331	3,762,754	-79,423	22,401,775	22,083,767
Net operating cost of services - surplus/(deficit) (A - B)	1,583,130	1,528,773	54,357	9,271,221	9,656,813
Other expenditure					
Interest and finance costs	118,479	126,112	(7,633)	749,037	756,670
Depreciation	1,016,685	988,136	28,549	6,140,511	5,928,815
(Gain)/loss on investments	-	-	-	-	-
(Gain)Loss on swaps	89,807	32,629	57,178	252,951	195,773
(Gain)Loss on disposals	-	-	-	-	-
Total other expenditure (C)	1,224,970	1,146,876	78,094	7,142,499	6,881,258
Total expenditure (D = B + C)	4,908,302	4,909,631	(1,329)	29,544,274	28,965,025
Net cost of services - surplus/(deficit) (A - D)	358,159	381,896	-23,737	2,128,722	2,775,555

Variance Analysis (amend administration commentary)

Operating Revenue	
Rates revenue	This is on budget with a minor variation of 1%, this is due to variances in the water rates and penalties being slightly higher than budget YTD
User fees and charges	User fees are below budget by 9%, this is due to lower than expected refuse and dog registration fees at this time and may be a budget phasing issue.
Grants and Subsidies	Grants and subsidies are below budget by 11%, this is mostly due to a \$20K variance in NZTA
Operating Expenditure	
Personnel costs	Personnel costs are below budget by approximately \$140k, this is due to several unfilled positions.
Administrative costs	Administrative costs have exceeded budget by 14%
Operating costs	Operating costs are 1% below budget, this may be due to phasing as the first quarter is quieter and has less expenditure, this picks up in the second and third quarter with better weather.
Grants and Donations	These are slightly below budget and are difficult to predict when they will fall due as are paid on request.
Other Expenditure	
Depreciation	Depreciation is slightly above budget YTD
(Gain)/Loss on Swaps	Swap values are based on market factors and are difficult to predict. Any gain or loss on swaps would not materialise unless swaps were cashed in before maturity. These are non-cash costs.

Council Approved Unbudgeted Expenditure

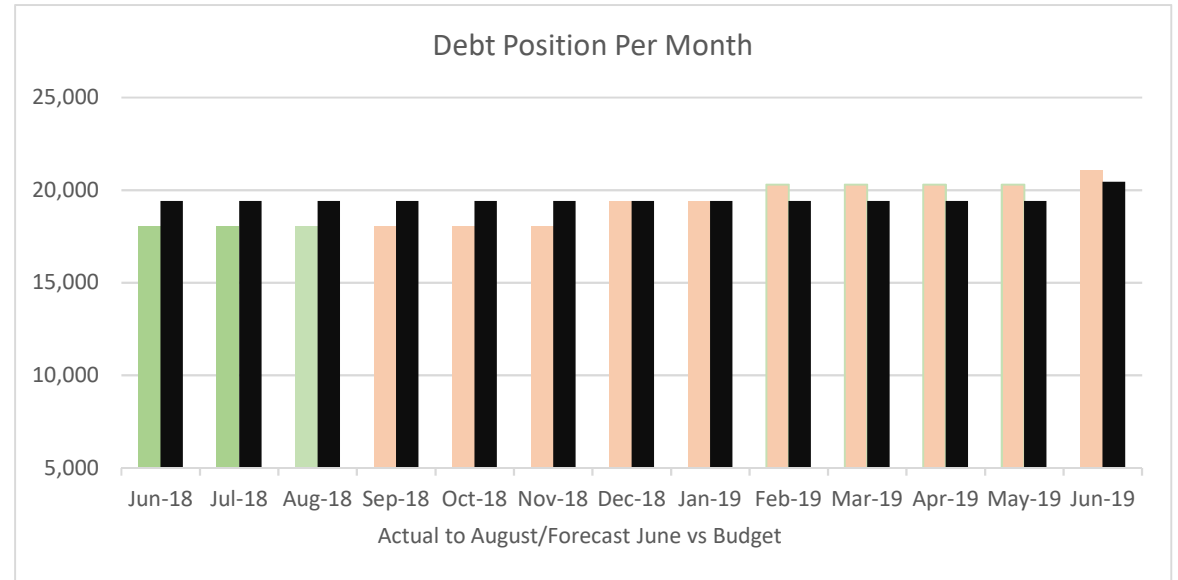
2018-2019

Dated Approved	Description	Amount Approved \$	Amount Spent \$	Status
Aug-18	Purchase of Land for Wastewater treatment plant	285,000	-	Required as part of the Franz Josef Wastewater project
Aug-18	Funding of War memorial in France	1,300		\$100 per soldier, from current information the total is as \$1,300
Aug-18	Policy on Mining Conservation Land	20,000		In line with other West Coast Councils
	IBIS Financial Reporting Software	50,000	34,360	Council's current system is manual and inefficient on staff time, the new system will provide for staff efficiencies throughout the organisation and will allow for both budgeting and actual financial reporting.
	Employment of Mayors PA	21,120	-	Started Employment 10th September
	ELMO - HR Software	31,018	31,018	WDC share of 50/50 Split with WCRC.
	Tourism Infrastructure Funding	See note below		
	Tourist Amenities Block (TIFF)	58,750		WDC contribution Only
	Kumara Visitor Experience (TIFF)	61,350		WDC contribution Only
	Whataroa Toilets (TIFF)	100,250		WDC contribution Only
	Ross Toilets (TIFF)	106,750		WDC contribution Only
Total		735,538	65,378	




Tourism Infrastructure Funding – Council are utilising the opportunity to capitalise on this fund while it is available. Council have stated in the Long Term Plan that it will utilise outside funding if possible. With increased tourist numbers, Council needs to respond to the infrastructure requirements in the Communities, and with tight application deadlines and unknown requirements at the time, it is not always possible to understand the amounts required at the time Council prepares its budgets.

















Forecast Debt Position per Long Term Plan for the 2018-19 Financial Year













Forecast as at	Jul-18	Aug-18
Opening Balance	18,018	18,018
Loan funded capex forecast	3,998	4,610
Forecast repayments 201-1	(1,571)	(1,571)
Forecast balance June 2019	20,446	21,058

















































































	Debt Position per month												
	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Budget	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	20,446
Forecast at 1 July 2017	18,018	18,018	18,018	18,018	18,018	18,018	19,401	19,401	19,401	19,401	19,401	19,401	20,446
Actual + Forecast	18,018	18,018	18,018	18,018	18,018	18,018	19,401	19,401	20,301	20,301	20,301	20,301	21,058
Waste Management loan	2,207	2,207	2,207	2,207	2,207	2,207	2,307	2,307	2,307	2,307	2,307	2,307	2,172
Water Supply loan	2,178	2,178	2,178	2,178	2,178	2,178	2,447	2,447	2,947	2,947	2,947	2,947	3,358
Wastewater loan	1,485	1,485	1,485	1,485	1,485	1,485	1,785	1,785	1,785	1,785	1,785	1,785	2,679
Structured Infrastructure loan for Council assets	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845
Stormwater loan	702	702	702	702	702	702	702	702	1,102	1,102	1,102	1,102	1,465
Transportation	685	685	685	685	685	685	685	685	685	685	685	685	658
Vehicle loan	44	44	44	44	44	44	44	44	44	44	44	44	34
Cass Square	109	109	109	109	109	109	109	109	109	109	109	109	123
Conveniences	165	165	165	165	165	165	598	598	598	598	598	598	543
Other	60	60	60	60	60	60	341	341	341	341	341	341	661
Hokitika Water supply upgrade	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	1,519

Forecast on Budget		Legend - Key
Forecast over Budget		
		

Project / Activity	YTD Exp	2018-19	Forecast	Budget Track	Progress / Track
LEADERSHIP					
Information Management - DMS		50,000	50,000		
IT Equipment renewals - Annual Network		32,000	32,000		
IT Equipment renewals - Upgrades to workstations	3,840	12,000	8,160		
IT Equipment renewals - Webcam replacement		2,500	2,500		
IT Equipment renewals - Disaster recovery servers	12,250	40,000	27,750		
Council HQ - Refurbishment	7,019	100,000	92,981		
IT Equipment renewals - Civil Defence Laptop		5,000	5,000		
Civil Defence - Civil defence Kits	633	4,800	4,167		
	23,742	246,300	222,558		

LIBRARY					
Library - Electrical upgrade		29,300	29,300		
Library - Audio/Visual Resource		4,324	4,324		
Library - Free Adult Books		14,053	14,053		
Library - Adult Non Fiction		18,918	18,918		
Library - Junior Publications		12,432	12,432		
Library - Large Print Books		6,486	6,486		
	0	85,513	85,513		

WATER SUPPLY					
Kumara - Mains upgrade programme	3,557	15,000	11,443		
Kumara - Treatment Components upgrade programme	1,950	2,778	828		
Kumara - Disinfection upgrades programme		2,222	2,222		
Kumara - Telemetry		3,333	3,333		
Arahura - Treatment Components upgrade programme		2,778	2,778		
Arahura - Disinfection upgrades programme		2,222	2,222		
Arahura - Telemetry		3,333	3,333		
Arahura - Water treatment plant		365,000	365,000		
Hokitika - Mains upgrade programme	8,018	300,000	291,982		
Hokitika - Pumps Upgrade Brickfeild		25,000	25,000		
Hokitika - Water meter replacements		90,000	90,000		
Hokitika - Generator		45,000	45,000		
Hokitika - Treatment Components upgrade programme		2,778	2,778		
Hokitika - Disinfection upgrades programme		2,222	2,222		
Hokitika - Telemetry		3,333	3,333		
Ross - Mains upgrade programme		120,000	120,000		
Ross - Building Repairs and Stabilisation		15,000	15,000		
Ross - Water Source		20,000	20,000		
Ross - Treatment Components upgrade programme		2,778	2,778		
Ross - Disinfection upgrades programme		2,222	2,222		
Ross - Telemetry		3,333	3,333		
Hari Hari - Mains upgrade programme		15,000	15,000		
Hari Hari - Treatment Components upgrade programme		2,778	2,778		
Hari Hari - Disinfection upgrades programme		2,222	2,222		
Hari Hari - Telemetry		3,333	3,333		
Whataroa - Treatment Components upgrade programme		2,778	2,778		
Whataroa - Disinfection upgrades programme		2,222	2,222		
Whataroa - Telemetry		3,333	3,333		
Franz Josef - Mains upgrade programme	1,161	90,000	88,839		
Franz Josef - Raw Water Source		220,000	220,000		
Franz Josef - Blower Electrics & SCADA		32,000	32,000		
Franz Josef - Treatment Components upgrade programme		2,778	2,778		
Franz Josef - Disinfection upgrades programme		2,222	2,222		
Franz Josef - Telemetry		3,333	3,333		
Fox Glacier - Plant upgrade		400,000	400,000		
Fox Glacier - Mains upgrade programme	2,934	80,000	77,066		
Fox Glacier - Treatment Components upgrade programme		2,778	2,778		
Fox Glacier - Disinfection upgrades programme		2,222	2,222		
Fox Glacier - Telemetry		3,333	3,333		
Haast - Treatment Components upgrade programme		2,778	2,778		
Haast - Disinfection upgrades programme		2,222	2,222		
Haast - Telemetry		3,333	3,333		
		1,907,000	1,889,379		

WASTEWATER					
Hokitika - WWTP upgrade		275,000	275,000		
Hokitika - Mains upgrade programme		60,000	60,000		
Hokitika - Pump upgrade	2,221	20,000	17,779		
Hokitika - Pump upgrade (Kaniere)		130,000	130,000		
Hokitika - Kaniere Road catchment		50,000	50,000		
Hokitika - WW Network Growth		2,500	2,500		
Franz Josef - WWTP upgrade	504	2,250,000	2,249,496		
Franz Josef - WW Network Growth		2,500	2,500		
Fox Glacier - Mains upgrade programme		32,000	32,000		
Fox Glacier - WWTP upgrade		100,000	100,000		
Fox Glacier - WW Network Growth		2,500	2,500		
Haast - WW Network Growth		2,500	2,500		
	2,725	2,927,000	2,924,275		

STORMWATER					
Hokitika - Mobile generator		30,000	30,000		
Hokitika - Mains upgrade programme	4,298	25,000	20,702		
Hokitika - Pump upgrade (Tancred)		200,000	200,000		
Hokitika - Pump upgrade (Sewell)		100,000	100,000		
Hokitika - Pump upgrade (Rolleston)		20,000	20,000		
Hokitika - Pump upgrade (Hoffman)		50,000	50,000		
Hokitika - Extension Weld St		130,000	130,000		
Hokitika - Realignment Beach St		20,000	20,000		
Hokitika - Extension Jollie St		240,000	240,000		
Hokitika - Mains upgrade new developments	6,678	10,000	3,322		
	10,976	825,000	814,024		

SWIMMING POOLS					
Swimming Pool Ross - EQ strengthening		10,000	10,000		
	0	10,000	10,000		

COMMUNITY SERVICES DEVELOPMENT					
Footpath upgrades - Hokitika		27,000	27,000		
Footpath upgrades - Kumara	22,000	10,000	12,000		
Footpath upgrades -		3,000	3,000		
Footpath upgrades - Kaniere		1,000	1,000		
Footpath upgrades -		3,000	3,000		
Footpath upgrades -		20,000	20,000		
Footpath upgrades -		1,000	1,000		
Footpath upgrades -		1,500	1,500		
Footpath upgrades -		1,500	1,500		
	22,000	68,000	46,000		

ELDERLY HOUSING					
Elderly Housing - Glazing and insulation		20,000	20,000		
	0	20,000	20,000		

WCWT					
West Coast Wilderness Trail - Enhancement	130,677	70,000	60,677		
	130,677	70,000	-60,677		

SOLID WASTE					
Haast - Preparation for new cell		10,000	10,000		
Butlers - Site Shed		15,000	15,000		
	0	25,000	25,000		

LAND & BUILDINGS					
Buildings - Greypower windows		8,000	8,000		
	0	8,000	8,000		

I SITE & MUSEUM					
Museum - Photobooth		2,400	2,400		
i-Site - Booking Computers		7,500	7,500		
i-Site - Interactive mapping		11,780	11,780		
i-Site - Self service computers		4,900	4,900		
i-Site - Website development		10,000	10,000		
i-Site - Replacements of equipment		3,000	3,000		
	0	39,580	39,580		

PARKS & RESERVES					
Reserves - Waterfront development		50,000	50,000		
Reserves - Cass Square - Demolish Grandstand		15,000	15,000		
Reserves - Cass Square - Building improvements Pavillion		20,000	20,000		
Reserves - Cass Square - Rubber matting		20,000	20,000		
Reserves - Haast		10,000	10,000		
	0	115,000	115,000		

TRANSPORTATION					
Unsealed Road Metalling (3030)	60,936	286,500	225,564		
Sealed Road Resurfacing (3031)		850,000	850,000		
Maintenance - Drainage Renewals (3032)		159,000	159,000		
Structures Component Replace (3033)		212,500	212,500		
Traffic Services Renewals (3034)	9,234	127,500	118,266		
Sealed Road Pavement Rehabilitation	212,216.50	80,000	132,217		
Sealed Road Resurfacing (3070)		159,000	159,000		
Maintenance - Drainage Renewals		27,000	27,000		
Structures Component Replace (3072)		53,000	53,000		
Traffic services renewals	525.00	11,000	10,475		
Sealed Road Pavement Rehabilitation		150,000	150,000		
Low Cost Low Risk - Local		545,000	545,000		
Low Cost Low Risk - SPR		35,000	35,000		
			-		
	282,911	2,695,500	2,412,589		
Total	490,651	9,041,893	8,551,242		

The carryover report has yet to be compiled, once this has been completed and reviewed by the executive team, the report will be brought to Council for approval of the carryover projects and will then be reported on monthly.

Once the End of Year Audit is completed and the Annual Report adopted, a balance sheet will be available for future reports.

Report

DATE: 27 September 2018

TO: Finance, Audit and Risk Committee

FROM: Group Manager: Corporate Services

LTP 2018-28 AUDIT MANAGEMENT REPORT - FINAL

1 SUMMARY

- 1.1 The purpose of this report is to present the Long Term Plan (LTP) 2018-28 Audit Management Report.
- 1.2 The report is written by Bede Kearney, Audit Director for Audit New Zealand and has been reviewed by Council management. Observations and comments from both are contained within the report.
- 1.3 Council seeks to meet its obligations under the Local Government Act 2002 and the achievement of the District Vision adopted by the Council in May 2018, which will be set out in the next Long Term Plan 2018-28. These are stated on Page 2 of this agenda.
- 1.4 This report concludes by recommending that the Committee receive the LTP 2018-28 Audit Management Report.

2 BACKGROUND

- 2.1 LTP Audit Management Reports are provided to the Committee for each Long Term Plan Audit, and provide commentary and recommendations on observations made by the audit team, on the consultation document and long term plan during the audit process.
- 2.2 A draft report is delivered to the Chief Executive and Group Manager, Corporate Services in the first instance to enable the Executive Team to provide a response to the comments. This then enables elected members to receive a full report on the issue/recommendation and the actions being taken by staff to address any issues identified.

3 CURRENT SITUATION

- 3.1 The LTP 2018-28 Audit Management Report discusses the audit of the Consultation Document and were satisfied that the document met the statutory purpose and provided an effective basis for public participation in the Council's decisions about the proposed content of the 2018-28 LTP.
- 3.2 An unqualified audit opinion was issued on the consultation document, however the report did contain an emphasis of matter paragraph referring to the impact of the forecast renewals backlog.
- 3.3 A qualified audit opinion was issued on the long term plan 2018-28, the basis for this opinion was the understatement of the expected level of the renewals programme for 3 waters assets, which in turn overstated cash balances, and also the lack of knowledge about the condition of the 3 waters assets.
- 3.4 The LTP 2018-28 Audit Management Report provides recommendations for improvements and staff have responded to those recommendations. The audit recommendations, staff responses and commitments are included in full in the LTP 2018-28 Audit Management Report attached as **Appendix 1**.
- 3.5 Staff have already begun to act on recommendations on improvement of Infrastructure asset information, and the budgeting model will be replaced during the current financial year.

4 RECOMMENDATION

- A) **THAT** the Committee receive the LTP 2018-28 Audit Management Report.

Lesley Crichton
Group Manager: Corporate Services

Appendix 1: LTP 2018-28 Audit Management Report - Final

Report to the Council on the audits of
Westland District Council's
Long Term Plan Consultation Document and
Long Term Plan for the period
1 July 2018 to 30 June 2028

Report to the Council

We have completed the audits of the Westland District Council (the District Council)’s Long Term Plan Consultation Document and 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.

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Key messages

We have completed the audits of Westland District Council's (the District Council) Long Term Plan Consultation Document (LTP CD) and Long Term Plan (LTP) for the period 2018-28.

Audit opinions issued

LTP CD audit opinion

On 10 May 2018 we issued our audit report which contained an unqualified audit opinion and an emphasis of matter paragraph in relation to the District Council's 3 waters' asset renewals expenditure forecasts and its disclosures about the lack of asset condition information.

LTP audit opinion

Our LTP audit report issued on 2 July 2018 contained a qualified audit opinion in relation to the District Council's 3 waters' asset renewals expenditure forecasts and the lack knowledge about the condition of the 3 waters assets. The basis for the qualified opinion was the understatement of the forecast renewals programme for 3 waters assets, which in turn overstated cash balances.

While the underlying situation was unchanged from the LTP CD audit, we concluded that the impacts in the LTP were more direct than for the LTP CD. The qualification applied to both legs of our audit opinion; as it impacted both the financial forecasts and the quality of underlying information.

Infrastructure Strategy and Asset management plans

The 3 waters asset management plans (AMP) had not been updated since the 2015-25 LTP. We expected these plans to be refreshed with updated knowledge of the assets gathered since the previous LTP. The refreshed plans would have helped the District Council identify which assets were due for renewal during the next 30 years.

We concluded that while the Infrastructure Strategy addresses the legislative requirements, there is significant scope for improvement. We have outlined our key recommendations in section 4.1.3 in this report. We have not included any minor recommendations in our report.

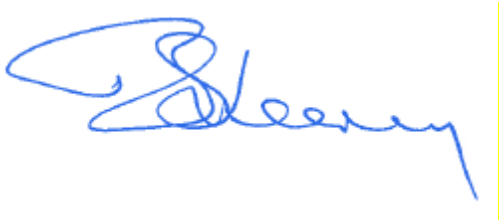
Project management and missed deadlines

The District Council developed a project plan and we agreed key deliverables based on this. However there were some delays during the audit of the LTP CD and the agreed timetable per the audit engagement letter was not met in some key areas. We understand that this was mainly due to staffing capacity issues. The audit also took longer to finalise due to the significant issues arising from the lack of asset condition information. These delays meant the LTP CD was adopted six weeks later than the original adoption date and the LTP was adopted later than expected, but still within the statutory timeframe.

We have incurred additional costs as a result of the project delays and unexpected issues we identified during the audit. We intend to discuss recovery of some of those additional costs with the District Council.

Thank you

We would like to thank the Councillors, management and staff for their assistance and co-operation during the audit.



Bede Kearney
Audit Director
20 August 2018

1 Our audit opinions

1.1 Consultation document

We issued an unqualified audit opinion on 10 May 2018. Our audit report contained an **emphasis of matter paragraph**. This paragraph referred to the District Council's narrative on pages 8 to 12 of the LTP CD, which explained the District Council's forecast backlog in its 3 waters asset renewals.

The unqualified audit opinion meant we were satisfied the District Council's LTP CD provided an effective basis for public participation in the Council's decisions about the proposed content of its 2018-28 long-term plan. It fairly represented the matters proposed for inclusion in the long-term plan and identified and explained the main issues and choices facing the Council and district, and the consequences of those choices. We also concluded that the information and assumptions underlying the information in the LTP CD are reasonable.

The emphasis of matter referred to the impact of the forecast renewals backlog, which is forecast to grow to \$12.7 million by 2028. In our audit report we said:

"Forecast renewals for the 3 waters relate to only the critical assets Council has assessed must be replaced. Critical assets are pumping stations, treatment plants, valves, storage tanks and other componentry inclusive of continuous lengths of underground piping components for supply of sewer, water main and storm water services to residential dwellings and the assessment is based on information about the age and a performance of these assets.

The consultation document sets out the reasons for the forecast backlog, the potential risks it poses, and how the District Council will manage these risks. It also identifies the forecast build-up in cash investments, which will give the District Council the financial capacity to bring forward work as part of a re-forecast renewals programme. It states that once it has better asset condition information for its 3 waters asset classes, the District Council will re-forecast its renewals programme and reduce the forecast backlog over years 4 to 10 of the forecast period. This re-forecast will reflect the renewals needs of all assets".

The District Council's approach in preparing its 10 year LTP forecasts was to focus on renewing the more critical higher risk assets while it builds its asset condition knowledge in first few years of the LTP. The renewals programme in the LTP reflects only the needs of critical assets and a small allowance for the renewal on non-critical assets. In the next LTP the District Council plans to address its deferred renewals, once it has better information on the condition of its assets.

The LTP CD set out the reasons for the forecast backlog, the potential risks it poses, and how the District Council will manage these risks. It also identified the forecast build-up in cash investments, which will give the District Council the financial capacity to bring forward work as part of a re-forecast renewals programme. It states that once it has better asset

condition information for its 3 waters asset classes, the District Council will re-forecast its renewals programme and reduce the forecast backlog over years 4 to 10 of the forecast period. This updated re-forecast will reflect the renewals needs of all assets.

Apart from the matter highlighted above, we were satisfied the District Council's LTP CD met the statutory purpose and provided an effective basis for public participation in the Council's decisions about the proposed content of the 2018-28 LTP.

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

Unadjusted misstatements

The LTP CD was 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 CD.

We discussed any misstatements that we found with management. All misstatements were amended prior to the District Council adopting the LTP CD.

1.2 Long Term Plan

We issued a qualified audit opinion on the District Council's LTP. The basis for the qualified opinion was the understatement of the expected level of the renewals programme for 3 waters assets, which in turn overstated cash balances, and the lack knowledge about the condition of the 3 waters assets.

While the underlying situation was unchanged from the LTP CD audit, we concluded that the impacts in the LTP were more direct than for the LTP CD. The qualification applied to both legs of our audit opinion; as it impacted both the financial forecasts and the quality of underlying information.

Our qualified audit opinion read:

Qualified opinion arising from the absence of reliable information on 3-water infrastructure

In my opinion, except for the possible effects of the matter described below:

- the plan provides a reasonable basis for:
 - long-term, integrated decision-making and co-ordination of the Council's resources; and

- accountability of the Council to the community;
- the information and assumptions underlying the forecast information in the plan are reasonable.

Reason for the qualified opinion

On pages 18 to 21 of the LTP, the District Council outlined the information and assumptions it used to forecast the renewals programme for water, wastewater, and stormwater assets (the 3 waters assets). The information on those pages showed that it does not have reliable information about the condition of its 3 waters assets. As a result, we could not conclude that the condition information used to support the 3 waters assets was reasonable.

The financial forecasts provide for the renewal of only critical 3 waters assets, as defined by the plan. As a result, the District Council is forecasting an increase in its cash investments in the forecast statement of financial position to \$22.2 million in 2028. However it plans to invest in improving its knowledge of its 3 waters assets and once it has better knowledge, it will re-forecast its renewals programme for all of its 3 waters assets. It believes that this will result in significantly higher expenditure for renewing those classes of assets than it has forecast in the LTP.

Unadjusted misstatements

The LTP was 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 CD.

We discussed any misstatements that we found with management. The significant misstatements that have not been corrected are listed in Appendix 1, along with management's reasons for not adjusting these misstatements.

We are satisfied that these misstatements are individually and collectively immaterial.

2 Audit scope and objective

The scope of our audit engagement and our respective responsibilities are contained in our audit engagement letter 18 December 2017.

3 Areas of audit emphasis

During the planning stage of the audit, and our review of the content of the LTP CD, 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.

3.1 Quality of asset-related forecasting information

We reviewed the Water Supply, Wastewater and Stormwater (3 waters) and Transport activities as areas of audit focus. The areas of audit focus were reviewed through discussion with infrastructure staff, a high level assessment of planning systems, review of the infrastructure strategy, and reviewing of the asset management plans where available.

3.1.1 3 waters asset management planning and financial forecasts

We noted early in our audit work that the three AMPs had not been updated since the 2015-25 LTP. We expected these plans to be refreshed with enhanced knowledge of the assets gathered since the previous LTP. The refreshed plans would have helped the District Council identify which assets were due for renewal over the next 30 years.

The District Council staff explained to us that they currently do not collect or have access to reliable condition information on these assets. The age based data recorded in the asset information systems was the only information available on which to assess the quantum of renewals required for the 3 waters LTP forecasts. While this age information is reasonably reliable, the risk from this approach is that there are differences between the nominal life of assets and their actual life, which a condition assessment would reveal.

The age based analysis shows there are \$5.5 million of deferred renewals at the start of the 10 period. It also shows that \$22.5 million of 3 waters renewals are required for the 10 year LTP period. The District Council has forecast to spend \$9.8 million over the next 10 years. This means that by end the LTP period, deferred renewals are forecast to have increased to \$17.7 million.

The District Council's approach for preparing the 10 year LTP forecasts was to focus on renewing the more critical higher risk assets while it builds its asset condition knowledge in first few years of the LTP. The renewals programme in the LTP reflects the needs of critical assets and only a small allowance for the renewal on non-critical assets. In the next LTP the District Council plans to address its deferred renewals, once it has better information on the condition and actual needs of these assets.

The District Council plans to increase its financial capacity and the organisational capability so it can significantly increase its renewals programme following the completion of the condition assessments. It is fully funding its depreciation expense through the 10 years of the LTP forecasts. However, because its forecast renewals programme excludes non-critical assets, its forecast renewals are around \$2 million below the level of funded depreciation each year. This means the LTP's financial forecasts show a build-up in cash of over \$20 million by year 10 of the LTP.

In the short term, while condition information is being gathered the District Council has the financial capacity in the bank to increase its renewals programme or react to significant breakages as needed. However, in the medium to longer term, relying on primarily aged

based reactive approach opens it up to increased risks of asset failures and service interruptions, impacting on the ability to deliver the current level of service.

The District Council disclosed these risks in the LTP CD, the LTP and in its Infrastructure Strategy.

It is essential that the District Council takes the steps needed to gather information on the condition of its assets. We expect, that the renewals programme will be updated within the asset management plans as management gathers better condition information.

Recommendation

Collect better condition information and progressively update the forecast renewals programme in the asset management plans. This will provide the District Council and the community with more assurance that it will be able to maintain the required levels of service for all classes of assets.

Management comment

WDC acknowledges the gap in its information around the condition of the 3 waters portfolio. Information and data capture is a key missing aspect of our plans and we have already invested in resources to remedy the issue. Focus will be on bringing the AMP's up to current state to reflect practices and future plans. Physical hardware is planned to be installed on the treatment plants to capture and record live data, which will help council measure its performance. As stated we will be reforecasting as information comes to hand about the asset condition and this will be reflected in our next LTP.

Other planned improvements include network modelling that have been budgeted for, and testing of pipe materials currently held in storage by the contractor.

3.1.2 Transportation asset management planning

We also reviewed transportation AMP. Our review of the AMP and our discussions with management indicated that the renewals forecasts are based on historic performance and expenditure.

The AMP includes an improvement plan which is critical to the integrity of the future work programme. This improvement programme includes actions to address the availability of accurate, complete and timely data in RAMM. This will be the basis of the development of the resultant work programme.

We noted the following areas:

- The District Council needs to develop a pavement rehab programme.
- Non-subsidised areas have generally not been included in the AMP as traditionally this work has not been developed or funded. This should be an area of future

focus in enhancing the AMP as there may be underlying issues which have not yet been identified.

Recommendation

Implement the improvement plan and the matters we have identified above.

Management comment

We will focus on improving the AMP (including areas identified in the audit) and bring the pavement rehab program online as soon as practical.

A previously unsubsidised programme for footpaths is now a subsidised activity, and is being incorporated into the roading AMP.

3.2 Control environment

Our approach to the audit was to identify, confirm and assess the District Council's key processes and controls over the underlying information and ultimate production of both the LTP CD and 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 identified one area for improvement in the LTP development process.

3.2.1 No formal Budget instructions

There are currently no formal instructions for the use of the budget model template. We were advised that formal training on the template was provided by PwC when the template was originally created. This knowledge has been passed down over the years.

The template is also used for the annual plan budgeting process, so key staff are well versed in its use. The model is restricted to only be updated by finance staff.

It is good practice for formal instructions to be documented to ensure that all staff who have access, have the required knowledge on how to use the template. The risk of loss of knowledge is increased by staff turnover.

Recommendation

Formal budget instructions should be developed on how to use the budget model template.

Management comment

Council have already identified an agnostic reporting tool, which will provide for all our reporting including the LTP, Annual Plan and monthly actuals reporting. The current budget model will no longer be used. For the new reporting tool, there will be detailed manuals. The

integrated financial management software installation is due to be installed by end of December 2018.

3.3 Content of the LTP CD

We were satisfied that the LTP CD included appropriate information to enable consultation with the public on key issues.

The key issues were clearly described in the LTP CD. They included:

- Long-term security of Arahura Pa water supply.
- Transfer of management of strategic assets and non-core activities to CCO.
- Live-streaming Council meetings.
- Contributing \$100,000 funding towards the Westland High School Recreation and Community Centre project.

We considered whether these matters were presented fairly in the LTP CD, with sufficient information available for an interested person to make an informed choice. In our view, the LTP CD was well written, had sufficient information, was balanced, and met the requirements in section 93B Local Government Act in providing an effective basis for public participation in the Council's decision making processes.

3.4 Adopting and auditing the underlying information

The Council adopted the underlying information necessary to support the LTP CD. This included the following documents:

3.4.1 Financial strategy

We developed an understanding of the District Council's financial strategy during the LTP CD audit and evaluated its compliance with the requirements of sections 100 and 101A of the Local Government Act 2002. The financial forecasts meet the balanced budget requirements of S100 and the financial strategy is prudent and appropriate.

The District Council's financial philosophy for this LTP is one of resilience and sustainability, as reflected in its vision to "grow and protect our communities". The District Council is forecasting surpluses in each of the 10 years of the Plan, therefore the balanced budget requirement has been met.

The average annual rates increase of below 2% over the next ten years, this has been achieved from what the Council describes as achieving a balance between progress and affordability.

Subsidies and grants from external parties are the preferred funding method and these are used ahead of rates wherever possible. Over this 10 year period 19% of the District Council's income will come from subsidies and grants.

Over the next ten years, the District Council plans to make \$13 million of loan repayments and raise \$15.4 million in new loans. Its debt increases in the early years when the District Council is undertaking a significant programme of new capex, but once this is completed debt starts to decrease.

The District Council has moved during the course of this LTP to "fully funding depreciation". This means it is in a long term financially sustainable situation. We believe its prudence is reflected in the strong balance sheet at 30 June 2028. While this strength is in part due to the low level of renewals forecast, a significant increase in renewal expenditure could be funded out of the cash surpluses accumulated in the balance sheet, without causing and undue strain on the District Council's overall financial condition.

We concluded that overall, the financial strategy, debt levels and forecast financial statements are financially prudent.

3.4.2 Infrastructure strategy (IS) review and recommendations

The IS covers the District Council's key infrastructure assets for water supply, stormwater, wastewater, transportation services, Parks, Reserves and Cemetery, Property and Land and Buildings. AMPs for these asset classes support the IS. However, with the exception of transportation, the AMPs have not been updated since the 2015-25 LTP.

The IS also links with the following asset and activity management plans:

- West Coast Districts Combined Activity Management Plan Transportation December 2017.
- Asset Management Plan Buildings 2015.
- Asset Management Plan Solid Waste 2015.
- Asset Management Plan Pensioner Housing 2015.
- Asset Management Plan 3 Waters 2014.
- Asset Management Plan Parks, Reserves and Cemeteries 2014.

While the AMPs have not been updated within the last three years there is one significant change from the 2015-25 AMPs' primary focus on maintenance and renewals. The District Council has committed to meeting its obligations for Drinking Water Standards compliance and monitoring, along with addressing recommendations from the Havelock North Inquiry Stage 2 Report. It has prioritised this new capital expenditure Level of service through the first four years of the LTP.

Our audit specialist reviewed the IS. She concluded that while it is some way short of reflecting good practice, its development is currently hindered by the lack of knowledge of asset condition. It does however reflect the District Council's approach to addressing this key issue and within these constraints, does comply with significant legislative requirements.

Based on our review of the IS we suggested some improvements to the document. Most of these improvements were incorporated into the IS before the LTP CD was issued. While we consider that the IS could be better presented we believe it does address the key issues the district is expecting to face.

We concluded that the IS addresses legislative requirements, however there is scope for further improvement in the following areas:

Recommendations

- A clearer articulation of current levels of service provided and specific planned improvements.
- The balance of information presented in the IS is heavily weighted to 3 waters activities. Transport and other infrastructure areas are at times not addressed or to a limited extent. The next the strategy should seek to ensure that all main infrastructure asset areas are consistently addressed and where other areas are deemed important, they should be developed to a similar standard.
- There are good examples of how the District Council is using the IS as a means to communicate key issues to its communities. In particular, this includes the description of the significant issues and decisions the District Council has to make.
- The IS does not address how the District Council will move to the increased level of work both from an internal capability perspective but also from a market engagement. The District Council should develop a plan which will ensure that it is well placed to facilitate this transition.
- The coverage of critical assets within the IS includes all roads and bridges as critical. This suggests that there is further scope to improve the District Council's thinking around critical assets and use this information in prioritisation of funding and developing a programme of work.

Management comments

The IS underpins the majority of councils capital program and must be keep current and relative. Additional effort had to go into the IS through the LTP – this added a significant burden on council and impacted the audit timetable. By ensuring the IS and AMPs are updated well in advance of any LTP program will help mitigate LTP roadblocks. WDC takes on board all the recommendations within this audit and will ensure they are considered when updating the IS in the future.

3.4.3 Asset Management Plan Data reliability

Developing comprehensive schedules of data reliability in line with the IIMM guidance is good asset management practice.

From our review of the District Council's underlying AMPs we noted that for 3 waters assets there is no reliability data. We note that while confidence ratings of condition are stated in the IS, the ratings are not clearly defined in the IS and are not based on any robust physical inspection or formal performance assessment.

As the IIMM states, there are a number of steps that the District Council should have taken to assess and be clear on the reliability of its own financial forecasts, including:

- having clear assumptions;
- being clear on data reliability;
- ensuring that consequential opex is factored into financial forecasts for new capex projects;
- assessing the reliability of assumptions;
- being clear which data affects the reliability of forecasts;
- assessing the variances for each data input; and
- determining the upper and lower bounds/sensitivity of forecasts.

We note in the last valuation some reliability ratings were provided for roading and 3 waters. Confidence ratings were assigned to asset quantity, unit costs, remaining life. However, these did not cover all aspects in the IIMM guidance.

The District Council should leverage off its current knowledge to develop better more comprehensive reliability/confidence ratings for its assets management data inputs and overall corresponding forecasts.

As part of updating the AMPs the District Council should include schedules of data reliability in line with the IIMM guidance.

Management comment

Previous capital expenditure of 3 waters assets did not include the correct level of monitoring equipment of historical data capture. Going forward we have plans to retrospectively install field devices to capture this data and all future projects (including the plants being installed this year) will have the correct features to allow performance monitoring. Whilst most manufacturers provide a life span for their products this is generally on the conservative side and only through correct monitoring can we define the real life. District Assets staff are fully aware of the need to bring the data management up

to best practice particularly in the 3 waters portfolio to ensure compliance to current and future drinking water standards.

3.4.4 Assumptions

The quality of the District Council's financial forecasts is affected by whether the assumptions on which they are based are defined and reasonable. The Act recognises this by requiring all local authorities to clearly outline all significant forecasting assumptions and risks underlying the financial estimates in the LTP.

The District Council has made and disclosed a number of assumptions in compiling its financial forecasts. We reviewed these assumptions for completeness, appropriateness and application. Other than the issue above about the renewals forecasts being based on primarily age based assessments of assets remaining useful lives, we did not identify any significant issues.

3.4.5 Performance framework

There were minor changes made to the District Council's performance framework since the previous LTP. We are comfortable the performance framework complies with GAAP and the Local Government Act requirements except for the following:

We noted the District Council's performance framework presents only one target for the full ten years. This suggests that the District Council is not proposing any changes in levels of service across all of its activities for the next 10 years. Given the level of new capex proposed this seems unlikely. Schedule 10 Clause 2 of the LGA requires the District Council to include performance targets for each measure in detail for the first three years and in outline for the following seven years.

We recommend the next LTP reflects any proposed changes in line with this requirement.

Management comment

WDC intends to review its strategy over the coming year to align how we work with council vision. This will include a full review of our values. Out of this work will be a review of our performance measures and KPI's.

4 Project management and missed deadlines

The development of the LTP CD and the LTP is a significant and complex project. A comprehensive project plan is required for a successful LTP process. Overall we considered that the District Council undertook a sound LTP process. However we noted instances throughout the audit where communication between the asset management staff and finance could have been better.

The District Council developed a project plan, however during the audit of the LTP CD there were some delays. This meant the agreed timetable per the audit engagement letter was not met in some key areas (Infrastructure Strategy and Consultation Document). When combined with issues found in underlying asset information, this meant the audit took longer to finalise. These delays meant the LTP CD was adopted six weeks later than the original adoption date and the LTP was adopted later than expected, but still within the statutory timeframe.

We have incurred additional costs as a result of these project delays and unexpected issues we identified during the audit. We discuss the reasons behind this and the recovery of our additional costs as part of our final close-out of the audit.

5 Other matters arising from our audit

5.1 National Policy Statement on Urban Development Capacity

In December 2016, the Government released its National Policy Statement on Urban Development Capacity (NPS-UDC). The NPS-UDC applies to all local authorities. The implementation of the policy statement could have significant implications for local authorities in the growing areas in New Zealand.

From our enquiries with management we understand the District Council has not investigated the NPS-UDC impact as part of the LTP. We accepted this this was not material to the LTP as a whole due to the district's low growth assumption.

We recommend that District Council formally reviews and determines its approach to the obligations under the NPS-UDC in the next 12 months.

Management comment

Acknowledged.

6 Audit of the final LTP

In our final audit visit we primarily focussed on the impact of the changes the District Council approved after consulting with the community. For the all of the approved changes we reviewed how they had been reflected in the financial strategy, the financial model, the infrastructure strategy and significant forecasting assumptions. With the exception of the matters identified in Appendix 1, we concluded that all changes were reflected appropriately in the LTP and in the underlying information and assumptions. We are satisfied that these unadjusted misstatements are individually and collectively immaterial.

We also reviewed the LTP document and concluded it both met the District Council's statutory obligations and provided a reasonable basis for long-term, integrated

decision-making and co-ordination of the District Council's resources, and its accountability
the community.

We have no other issues to bring to your attention.

Appendix 1: Unadjusted audit differences – LTP audit

Groups of Activities Funding Impact Statements

	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25	2025/ 26	2026/ 27	2027/ 28
1) Payments to suppliers and staff	252,468	254,443	256,574	263,359	265,794	268,479	276,515	279,557	276,682	277,943
2) Capital expenditure to replace existing assets	15,344	228,767	230,106	230,155	141,590	180,148	129,029	218,397	217,757	217,881
3) Development contributions	93,336	94,936	96,650	98,399	100,271	102,270	104,316	93,347	95,583	98,063

- 1 There are misclassifications in the Groups of Activities Funding Impact Statements for “Payments to Suppliers and Staff” and “Finance Costs”. These are offset in “Internal Charges and Overheads Applied”. The sub-totals of “Total Application of Operating Funding” are not affected.

The Council has not adjusted this as it does not believe this materially affects the financial forecasts in the Long-term Plan.

- 2 “Capital Expenditure to replace existing assets” does not reconcile between the Groups of Activities Funding Impact Statements and the Whole of Council funding Impact Statement.

The Council has not adjusted this as it does not believe this materially affects the financial forecasts in the Long-term Plan.

- 3 “Development Contributions” as a source of capital funding does not reconcile between the Groups of Activities Funding Impact Statements and the Whole of Council funding Impact Statement.

The Council has not adjusted this as it does not believe this materially affects the financial forecasts in the Long-term Plan.

Appendix 2: 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 CD 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 CD does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter dated 18 December 2018 contains a detailed explanation of the respective responsibilities of the auditor and the District 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 Westland District Council's LTP CD and 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>Other than our work in carrying out all legally required external audits, we have no relationship with or interests in the District Council or any of its subsidiaries.</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 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 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 CD and the LTP. Management has not sought to influence our views on matters relevant to our audit opinion.</p>

Report

DATE: 27 September 2018

TO: Finance, Audit and Risk Committee

FROM: Group Manager: Corporate Services

INTERIM AUDIT MANAGEMENT REPORT YEAR ENDED 30 JUNE 2018

1 SUMMARY

- 1.1 The purpose of this report is to present the Interim Audit Management Report (attached as Appendix 1) for the year ended 30 June 2018.
- 1.2 The report is written by Scott Tobin, Audit Director for Audit New Zealand and has been reviewed by Council management. Observations and comments from both are contained within the report.
- 1.3 Council seeks to meet its obligations under the Local Government Act 2002 and the achievement of the District Vision adopted by the Council in May 2018, which will be set out in the next Long Term Plan 2018-28. These are stated on Page 2 of this agenda.
- 1.4 This report concludes by recommending that the Committee receive the Interim Audit Management Report for the year ending 30 June 2018.

2 BACKGROUND

- 2.1 Interim and Final Audit Management Reports are provided annually to Council and provide commentary and recommendations on observations made by the audit team during the Annual Report audit process.
- 2.2 A draft report is delivered to the Chief Executive and Group Manager, Corporate Services in the first instance to enable the Executive Team to provide a response to the comments. This then enables elected members to receive a full report on the issue/recommendation and the action being taken by staff to address it.

3 CURRENT SITUATION

- 3.1 The Interim Audit Management Report for 30 June 2018 reflects on the changes in many key staff areas and the effect this has had on some key areas in the Council control environment. The report also discusses the impact of the Long Term Plan (LTP) on the processes for Council.
- 3.2 There are no new items described as 'Urgent' in the report, there are 11 items that are described as 'necessary' and no 'beneficial' items. These mainly relate to the Asset Management area, Risk Management, service requests and timely review of some financial reports.
- 3.3 The report includes a section on previous findings and recommendations. There are 2 previous recommendations that have been resolved, 8 outstanding that were described as 'necessary' and 1 that is described as 'beneficial'.
- 3.4 Staff have responded to the findings and recommendations and these responses have been included in the Report. The recommendations contained in the report will be incorporated into the development of Council's internal controls framework and risk management framework.
- 3.5 The financial year ended 30 June 2018 will be the third year of reporting against the performance measures contained in the Long Term Plan 2015-25. Council has the opportunity to monitor progress in this area as it receives quarterly reports during the year.

4 RECOMMENDATION

- A) **THAT** the Committee receive the Interim Audit Management Report for the year ended 30 June 2018.

Lesley Crichton
Group Manager: Corporate Services

Appendix 1: Interim Audit Management Report 30 June 2018

Report to Council on the interim audit of

Westland District Council

For the year ended 30 June 2018

Key messages

Summary

We have completed our interim audit of Westland District Council (the District Council) for the year ended 30 June 2018.

The primary purpose of our audit was to update our understanding of the District Council's control environment and gain a better understanding of the issues facing the District Council. The specific risk areas of audit focus for this year were outlined in our Audit Plan dated 10 July 2018.

In this report we make comments on our work to date including all issues noted during the audit and status of the issues and recommendations we had made in prior periods. We have scheduled an IT assessment for the week commencing 6 August 2018 and any findings resulting from this assessment will be included in the final report.

We will use the information gathered in this visit to plan our final audit.

Issues identified during the audit

The following table summarises our recommendations and their priority:

Recommendation	Urgent	Necessary	Beneficial
Revaluation of the District Council group land and buildings			
All entities in the District Council group should revalue land and buildings to ensure that the treatment is consistent. The timing of the land and buildings valuations should be consistent.		✓	
Risk Management			
Ensure continual review and update of the risk register and implementation of any mitigating actions identified.		✓	
Asset Management			
Work to address the shortcoming in the current asset management practises, as identified through the LTP process.		✓	
Reminding staff about ethical policies			
Staff should be reminded of the ethical and integrity policies in place, such as the code of conduct and sensitive expenditure policies, and the need to ensure that information held by the District Council is appropriately controlled.		✓	

Recommendation	Urgent	Necessary	Beneficial
Creditors masterfile change reports were not reviewed			
Ensure that all masterfile change reports for 2017/18 are retrospectively reviewed.		✓	
Untimely review of balance sheet reconciliations			
Retrospectively review bank reconciliations that have not been inspected during the 2017/18 period.		✓	
Asset disposal not approved prior to sale			
Obtain signed approval for all asset disposals prior to the sale taking place.		✓	
Staff interest register not up to date			
The District Council should ensure that the completion of the staff conflict of interest declarations is mandatory and non-completion should be followed up.		✓	
Fixed asset capitalisation policy			
Develop a formal asset capitalisation policy.		✓	
SSP – no clear guidance on the customer satisfaction measure			
Implement clear guidance outlining what constitutes a customer complaint in line with DIA requirements. Retrospectively review complaints information to ensure it is complete and accurate.		✓	
Compliance with resource consents			
Improve the knowledge gap regarding the systems and processes for monitoring compliance with the District Council's resource consents.		✓	

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

Thank you

We would like to thank the District Council and management for all the assistance provided to the audit team during our interim visit.



Scott Tobin
Audit Director
20 September 2018

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1 Assessment of your control environment

We have performed a high-level assessment of the control environment. We performed this assessment for the purpose of planning the most effective and efficient audit approach, in order to enable us to express an audit opinion on the District Council's financial statements and the non-financial information. We considered the overall attitude, awareness, and actions of the District Council and management in establishing and maintaining effective management procedures and internal controls.

In performing this assessment we considered both the "design effectiveness"¹ and "operational effectiveness"² of internal control. The explanation of these terms is outlined below. However, 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.

The control environment is defined by the standards, processes and structures that guide people throughout the organisation in carrying out their responsibilities for internal control and making decisions. It creates the discipline that supports the other aspects of internal control – risk assessment processes, performance of control activities, information and communication systems, and monitoring of controls.

Our review of the District Council's broader control environment included the following areas:

- budgeting and monitoring procedures;
- governance;
- risk management;
- asset management;
- procurement and contract management; and
- arrangements to manage the risks from conflicts of interest.

As outlined in our audit plan, we propose to perform a more detailed assessment of the District Council's procurement practices for a sample of projects to ensure that they comply with best practice. This assessment will be performed as part of the final audit.

Particular aspects of the control environment that we would like to comment on are as follows.

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.

1.1 The higher level environment

“The higher level control environment” comprises governance and management actions which set the policies and parameters within which the organisation operates and also the process through which compliance with these, along with organisational performance, are monitored.

The areas we considered during our high level assessment were:

1.1.1 Changes in Management

There have been significant changes within the management team over the past years, including changes to the roles of CEO, GM Corporate Services and GM District Assets in the last financial year. During the current financial year, the Finance Manager resigned in January 2018 causing time delays and increased workload for current staff.

An acting Finance Manager role was established through internal promotion and this staff member formally assumed the role of Finance Manager in April 2018. Additionally, the District Council has a current vacancy for an Accountant, and the associated responsibilities have been spread across other employees including a fixed term Assistant Accountant who was due to finish up their contract towards June 2018. These staffing changes and shortages occurred in a year where Council needed to commit substantial resource to the consultation document and LTP, further putting pressure on the Council.

The disruption, demands of the LTP process and need to keep the District Council’s services operating creates a heightened risk that some key aspects of the control environment have not operated effectively through the financial year.

As part of the interim audit we focused on determining whether the changes and the capacity issues impacted on the overall control environment. We also reviewed the operation of internal controls in key financial and non-financial systems. The issues we identified have been incorporated in section 2 of this report.

1.1.2 Fraud risk management

PwC has been engaged by the West Coast Councils as a collective group to perform a fraud risk assessment. The draft report from this assessment was provided to the District Council in December 2017 and the District Council is in the process of responding to the findings before the final report is published.

Our review of this draft report indicates that the District Council has a set of policies in place collectively referred to as the Fraud Control Framework (FCF). The key findings from the report are summarised below:

- there is an absence of an overarching FCF;
- there are no fraud detection systems in place outside of standard controls;

- there is no external avenue for staff to make disclosures to raise concerns;
- there has been limited training to improve the tone-at-the-top;
- there is a reactive approach to fraud risk management; and
- employment screening practices are inadequate.

A number of recommendations have been made to improve the District Council's FCF. We will maintain a watching brief in this area and we acknowledge the positive steps the District Council is taking to improve its fraud risk management processes.

1.1.3 Ethical matters

We have been advised of two ethical matters that have occurred over the last 18 months or so. Those matters are:

- The inappropriate release of personal information about former employees.
- The District Council investigating a former employee for the personal use of airpoints donated to the Council for promotional purposes. The matter was taken no further, but policies updated.

Recommendation

Staff should be reminded of the ethical and integrity policies in place, such as the code of conduct and sensitive expenditure policies, and the need to ensure that information held by the District Council is appropriately controlled.

Management comment

The learnings over the last 24 months has obviously highlight gaps in our processes. We have recently updated our Sensitive Expenditure policy accordingly. As a management team we will be revisiting our strategy which will include a full review of our values – how we want to work. This will help provide a fresh framework of guiding principles for staff.

We intend to use our new online HR system as much as possible to assist with the above strategy.

1.1.4 Risk management

The risk register has been updated and refreshed based on the District Council's review of the parameters included in the Quantate risk management system. As part of updating the risk register management have consulted with staff to identify a wider array of perceived risks, both internal and external, to the District Council. This formed the basis for an updated risk register. The updated risk register was presented to the Finance, Audit & Risk Committee at its meeting in April 2018. It is intended that the risks identified in the register will be incorporated into Quantate in the near future.

We encourage, the District Council to continuously review and update the risk register and implement any mitigating actions identified. The risks should be monitored on an ongoing basis and updated as required. See also, Appendix two.

1.1.5 Asset management

As part of our review of the 2018-28 LTP we noted the following issues:

- The District Council has AMPs in place for all significant asset groups. However, only the Transportation AMP was updated as part of the 2018-28 LTP.
- While the Infrastructure Strategy meets the legislative requirements of the LGA 2002, it falls short of best practice due to a lack of condition information.
- The District Council currently does not collect or have access to good condition information on their 3 water assets. The age based data recorded in the asset information systems is the best information available to assess the quantum of renewals required for the 3 waters LTP forecasts. While its age information is reasonably reliable, the risk from this approach is that there are differences between the nominal life of assets and their actual life, which a condition assessment would reveal. This resulted in a qualified opinion being issued for the 2018-28 LTP.
- The financial forecasts in the 2018-28 LTP for renewals are significantly below the level of depreciation over the 10 years, but because the District Council is now fully funding depreciation, it builds up significant cash reserves over the period. This provides the District Council with the financial capacity to adapt to the information that comes from the improved condition assessments it has committed to developing and any unexpected events in the form of breakages etc.

We encourage the District Council to continue to work to address the shortcoming in the current asset management practises, identified during the LTP process.

1.1.6 Conflicts of interest

The District Council's ability to manage risk associated with conflicts of interest is assessed to be a moderate risk area. We are maintaining a watching brief over investigations being conducted by both the Serious Fraud Office and the Office of the Auditor-General in relation to activities carried out by the District Council staff. These investigations include elements of conflict of interest.

Our review of policies and practices in place to manage and mitigate conflicts of interest indicated that Council is taking steps to improve its risk management practices. However, the District Council falls short of best practice in this area. Improvements can be made in the form of training provided to Councillors and senior staff, particularly those involved in procurement, making interest declarations mandatory (see section 2.1.4), and

implementing recommendations made by PwC as part of the fraud risk framework review (see section 1.1.2).

1.1.7 Legislative compliance

Council Controlled Organisations (CCOs) are responsible for meeting the accountability requirements of the Local Government Act 2002 (LGA) including the preparation of Statements of Intent (SOIs) with appropriate involvement from their parent Local Authorities. There is a higher expectation on the quality of the performance reporting of CCOs going forward.

Local Authorities are responsible for the effective oversight of their CCOs. This includes reviewing and commenting on draft SOIs of their CCOs within the timeframe in the LGA and on-going monitoring of performance.

The Westland Holdings Draft SOI for 2018/19 was not provided to the District Council prior to the deadline of 1 March 2018. Accordingly, the CCO has not complied with Schedule 2 part 8 of the Local Government Act 2002.

The District Council should work with its CCOs to ensure compliance with the significant legislative requirements.

2 Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems, as detailed below. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the District Council and management. Both “design effective” and “operationally effective” internal control is important to minimising the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the District Council.

We identified some areas where the District Council should consider enhancing its internal controls. These areas are outlined below and relate to both financial and non-financial systems:

2.1 Financial Reporting systems

The key systems that we reviewed included:

- payroll;
- expenditure/accounts payable;

- revenue/accounts receivable including rates, NZTA subsidies and development contributions;
- treasury management systems, including investment and debt management;
- legislative compliance system;
- general financial systems, including journals; and
- property, plant and equipment, including fixed assets and infrastructure assets.

Our review concluded that the District Council has appropriate systems of internal control over its payroll and expenditure financial systems except for the issues highlighted below, relating to the review of the creditor masterfile and the balance sheet reconciliations. In order for us to rely on these systems the District Council will need to carry out the actions identified in 2.1.1 and 2.1.2 prior to the final audit commencing. We did not complete detailed testing of controls on the other systems.

We identified a number issues to bring to your attention in relation to the operation of some of these financial system internal controls.

We have the following observations that may be beneficial to further enhance the internal controls:

2.1.1 Creditor's masterfile change report not reviewed

Recommendations

Ensure that processes fundamental to an effective control environment are documented and discussed as part of hand-over procedures.

Ensure that all masterfile change reports for 2017/18 are retrospectively reviewed.

The masterfile changes report should be run and reviewed by a senior staff member not involved in processing Masterfile changes.

Findings

On a monthly basis the finance staff will generate and review a masterfile change report detailing all changes made to supplier information (i.e. new suppliers, changes to bank accounts). This is a key control in ensuring that fraudulent suppliers are not created. During our expenditure testing, we identified three reports for the months of April, February and November that were not reviewed and signed. This can be attributed to the change in staff in January 2018 and an increased workload.

Management comment

To ensure review of report is completed, this requirement has been added to the month end checklist.

This process was also subject to strain through staff shortages and the extra strain of the LTP audit process.

2.1.2 Untimely review of balance sheet reconciliations

Recommendations

Ensure that bank reconciliations are reviewed on a timely basis.

Retrospectively review bank reconciliations that have not been inspected during the 2017/18 period.

Findings

All bank and suspense account reconciliations selected for testing (we specifically tested the Westpac account, Wages account, Accrued expenses and Cashiers Clearing accounts) were not prepared and reviewed in a timely manner. We note that the July 2017 bank reconciliation was prepared and reconciled, however, this was not evidenced as reviewed. This can be attributed to the change in staff in January 2018 and an increased workload.

Management comment

This was primarily due to the change in staff and increased workloads, staff have now settled into their roles and the vacant Accountant position will be filled from September. The issue was mainly with timeliness, and all reconciliations were being completed retrospectively.

2.1.3 Asset disposal not approved prior to sale

Recommendation

Obtain approval for all asset disposals from the relevant staff member with the required delegated authority prior to the sale being actioned.

Findings

As part of our review of the fixed asset system we identified one instance where the relevant disposal form was signed as raised and requested for disposal by the Fleet Manager, but was not approved prior to sale. This creates that risk that management are not obtaining reasonable value for the asset or that assets not intended for sale are being sold when the District Council has an intended use for the asset.

Management comment

This process is being re-enforced with the Group Managers particularly through District Assets who are generally the entity that manages the majority of council assets.

There is a disposal policy in place and an asset disposal form, however more re-enforcement of the process is required.

2.1.4 Staff interest register not up to date

Recommendation

The District Council should ensure that the completion of conflict of interest declarations is mandatory and non-completion should be followed up.

Findings

The District Council has processes for recoding staff Interests, these are recorded as part of their induction and in addition an interests declaration is circulated six monthly to all staff to update. However, from our review we found the District Council's staff interest register is not up to date. Specifically, we note that there is no follow up to ensure all staff complete and return their six monthly interest declarations and provide these back to the Executive Assistant for collation and consideration by the Executive team. This increases the risk that not all potential conflicts of interest are not identified and mitigated.

Management comment

For completeness, WDC will require all staff to respond, even if they have no interests. WDC is currently implementing a new HR system, it is possible that this system may be able to perform this process, this can be investigated.

2.1.5 Fixed asset capitalisation policy

Recommendation

Develop a formal asset capitalisation policy.

Findings

Our review of the District Council's fixed asset systems indicated that asset purchases with a value of \$500 or less are generally expensed to the Statement of Comprehensive Revenue and Expense as opposed to being capitalised to the Statement of Financial Position. There is no policy in place which establishes the threshold for capitalisation. This could lead to inconsistent treatment of assets purchased.

Management comment

It is intended to develop an Asset policy or similar for capitalisation of assets, however it has been an internal communication process and review by Finance as to what should be treated as an asset vs expense. Finance review and question purchases where it is unclear as to how an item should be treated.

2.2 Non-financial performance reporting systems

We reviewed the District Council's systems and controls for reporting its service performance information. We particularly focused on understanding whether there were appropriate systems in place to accurately report against those measures that we consider are key to providing the community with an understanding of the District Council's overall performance.

Service performance information is a vital medium through which the District Council can be transparent to the community about its performance. The service performance information shows how it is performing against the levels of services agreed in the Long Term Plan (LTP), for the range of services it provides to the community.

We reviewed the following areas of the District Council's performance framework. In these areas we focussed on the systems that support the service performance measures and targets.

The performance measures we reviewed include:

- 1 Compliance with drinking water standards (part 4 and 5).
- 2 Customer satisfaction with drinking water.
- 3 The number of dry weather sewerage overflows.
- 4 Customer satisfaction with wastewater.
- 5 Compliance with resource consents for discharge from the sewer system measured by issued: (abatement notices, infringement notices, enforcement orders, convictions).
- 6 The number of flooding events that occur in a Territorial Authority district.
- 7 The number of fatalities and serious injury crashes on the local road network.
- 8 Road smoothness.

Due to staff turnover, especially in the assets department, the District Council will need to ensure that the systems and processes for collating this information for reporting purposes are understood and that the results are subject to review.

While the annual report is based on reporting against the performance measures and targets in the annual report, there may be other areas, which are likely to be significant to the community, even though the LTP had no relevant performance measures.

Examples where information could be disclosed in Statement of Service Performance at year end include:

- 1 Franz Josef wastewater: we expect the District Council to provide narrative on the progress with the upgrades to meet resource consent.
- 2 Civil defence: We expect the District Council to report on any significant events that occurred during the year and how it responded to those events.
- 3 Maintaining building consent accreditation: the District Council could report its accreditation status as a way of reflecting the quality of the service it provides.

There were two new key findings from our interim audit that are summarised below. The District Council will need to address recommendations before our final audit in September/October.

In addition, there is still an unresolved issue around processing on information into the service request system from our prior years reports to the District Council, refer to Appendix 2.

2.2.1 No clear guidance on the customer satisfaction measure

Recommendations

Ensure that complaints are recorded in line with the Department of Internal Affairs' (DIA) definition of a complaint.

Retrospectively review complaints information to ensure it is complete and accurate.

Findings

The District Council does not have clear guidance on what is to be classified as a complaint. The DIA regards any customer request about one of the service areas identified in the Non-Financial Performance Measure Rules as a 'complaint' for the purposes of reporting on the Non-Financial Performance Measures.

The DIA is conscious of the potential compliance costs resulting from classifying each request individually, and the chance that differences in interpretation of what is or is not a complaint may lead to the measures being incomparable across Councils. For clarity, Councils may wish to add a note to the published measures explaining the selection method.

We understand that the District Council has not been recording complaints in line with this approach. The District Council needs to retrospectively review complaints information to ensure it is complete and accurate. This could be an audit opinion issue.

Management comment

The requirement to retrospectively review complaints is both onerous and unnecessary. However, we will retrospectively review the service requests in line with the DIA guidance.

Monitoring of complaints/service request not closed is monitored and reported for action.

A guidance statement for service requests and complaint process has been drafted and will be adopted when the AssetFinda database is implemented for this purpose. This system meets DIA requirements.

2.2.2 Compliance with resource consents

Recommendation

Improve knowledge regarding the systems and processes for monitoring compliance with the District Council's resource consents.

Findings

We were unable to complete a walkthrough of the process for compliance with the District Council's resource consents due to a lack of knowledge within the assets team. We understand that staff within the assets team are new to the District Council but that the responsibility for monitoring resource consents will be carried out by the 3 Waters Engineer.

Management comment

Most resource consents from external parties are registered in councils CS Vue database. A spreadsheet is also available. Future monitoring and reporting procedures are under review with the Regional Council to improve combined workflow processes.

3 Business risks and issues identified in our audit plan

The specific risk areas that we are paying particular attention to this year were outlined in our audit plan. Based on our work to date, we comment on the following areas:

Issue	Current status
<p>Statement of Service Performance</p>	<p>In progress</p> <p>We have reviewed the District Council's systems and controls for reporting its service performance information. Our findings have been documented in section 2.2 and Appendix 2 of this report.</p> <p>During our final audit visit we will assess whether the reported performance is materially accurate and complete and reflects the performance of the District Council.</p>

4 Other issues

4.1 Group accounting policies

Recommendation

All entities in the District Council group should revalue land and buildings to ensure that the treatment is consistent. The timing of the land and buildings valuations should be consistent.

Findings

CCOs Hokitika Airport Limited and Westland District Property Limited do not revalue land and buildings. Instead, these assets are carried at their historical cost less accumulated depreciation. The ultimate parent entity, the District Council, records its land and buildings at revalued amounts. These revaluations occur at least every three years. Accordingly, the accounting policies of the CCOs are not consistent with the District Council's policy.

PBE IPSAS 6: *Consolidated and Separate Financial Statement* (para 49) states that "Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances."

Accordingly, the group approach to valuing land and buildings is not consistent with PBE IPSAS 6.

Management comment

The Chair of Westland Holdings Ltd has been in discussion with Destination Westland (DW) board to provide an outcome and has recommended to DW that revaluations are undertaken.

Council will not be making any changes to accounting policies, we would expect the CCO's to align with Council accounting policies.

5 Summary of recommendations

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
2	Matters that have been resolved
5	Progress is being made, but not yet fully resolved
4	No progress has been made

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 2.

Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short the District Council 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 Local Authority 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 Local Authority 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

Matters that have been resolved

Recommendation	Outcome
Expenditure – no purchase orders for some creditor transactions	
We encourage the District Council to ensure all creditor transactions go through the purchase order system.	<p>Transactions that were being processed without a purchase order are now processed through the purchase order system.</p> <p>The only transactions that do not go through the automated PO system are:</p> <ul style="list-style-type: none"> • IRD payments (GST, FBT, Withholding Tax, etc.). This is reasonable because they are payments based on all other values and usually are not an order but a statutory obligation to pay. • Credit card statements – these are set up as direct debits with the bank. Going forward, Council is removing the direct debit so that these we will also go through the purchase order system.
Dry weather overflows	
Implement a system to capture wet weather sewer overflow events. In the interim the contractor should record the weather conditions when they attend sewer overflows.	The amount of sewage overflows for this District Council is relatively low, and weather data can be checked to identify the level of rain on a given day at a high level. The District Council accepts a higher level of risk associated with the lack of controls in place.

Outstanding matters

Recommendation	Current status	Priority	Management's proposed action
Renewals under-expenditure			
The District Council should ensure planned renewal expenditure is sufficient to avoid significant failure of assets in future years due to delayed maintenance not being carried out.	In progress The 2018-28 LTP was qualified on the basis that the District Council did not have accurate	Necessary	This was discussed in the LTP management report and was not part of the interim year-end audit.

Recommendation	Current status	Priority	Management's proposed action
	asset condition information, and could not budget reliably, three waters assets.		
Risk management improvements			
We encourage the District Council continue to progress work in risk management. Ensuring the new risk management system Quantate is fully implemented to help better identify, evaluate, monitor and manage risk. See also section 1.1.4	In progress The risk register has been updated based on Quantate parameters	Necessary	The Group Manager, Corporate Services is working with staff to ensure that all risks are captured in the Quantate system and that over the next few months the system is expected to be fully functional in managing Council risks.
Fixed Asset Register in a manual excel spreadsheet			
As management is not going to migrate the fixed asset register spreadsheet data in to the finance system (MagiQ), we recommend that someone regularly reviews the manual spreadsheet register to ensure changes to the spreadsheet such as asset additions and depreciation are being correctly calculated. It is also important that this spreadsheet is regularly reconciled with the general ledger within the Finance system.	In progress Reconciliations between the general ledger and the fixed asset register are performed on a monthly basis.	Necessary	WDC are currently looking at a combined Asset register that will meet the requirements of the district assets team and also the Financial requirements. This system is being reviewed at present, however if it is deemed suitable to implement, this will take some time. Staff will continue to use a manual fixed asset register until such time.
PAYE Exposure			
The District Council has a potential PAYE exposure in relation to payments made to former employees as some of the payments made through the settlement agreements were tax free. The District Council should seek professional advice and if appropriate consider making a voluntary disclosure to the IRD.	In progress The District Council has sought tax advice from PWC. The assessment is still in progress but will likely result in a voluntary disclosure being made to the IRD.	Necessary	PwC were engaged to review the agreements and other associated information, they have now provided Council with their advice. Council will be making a voluntary disclosure to IRD for both Income tax and FBT.

Recommendation	Current status	Priority	Management's proposed action
Service Requests			
<p>Improve how information is recorded in the service request system. Refer to table below for details of findings.</p>	<p>In progress Refer to table below for details of findings.</p>	<p>Necessary</p>	<p>This has been discussed under management comments earlier in the report.</p>
Legislative Compliance			
<p>We recommend the District Council develops and implements a sound legal compliance system for identifying and recording potential risks and assessing the likelihood of those risks across all activities of the organisation.</p> <p>Relying solely on the knowledge of staff exposes the organisation to risk, especially when staff change.</p>	<p>Pending</p>	<p>Necessary</p>	<p>The current approach involves assessing the systems and procedures that the District Council has in place to ensure compliance with significant legislation.</p> <p>The District Council also complete their own checklists covering the key requirements of significant legislation. Principally their focus in this area is on the accountability requirements under the Local Government Act 2002 and Rates setting under the Local Government (Rating) Act 2002.</p> <p>The District Council intends to use its Electronic Document Management System to provide staff with notifications of when key legislative dates are coming up to ensure compliance.</p>
Governance over Council Controlled Organisations			
<p>We encourage the District Council to work with its CCOs to ensure compliance with the significant legislative requirements.</p> <p>See also section 1.1.3</p>	<p>Pending</p>	<p>Necessary</p>	<p>Council will continue to work with the newly appointed WHL board to ensure CCO legislative compliance.</p>
IT Disaster Recovery Plan – interim			
<p>We recommend the District Council consider revising and updating the Plan to reflect the current situation.</p>	<p>Pending</p>	<p>Necessary</p>	<p>The IS Manager and the Business Analyst are currently progressing a IS strategy, as part of this, the IT</p>

Recommendation	Current status	Priority	Management's proposed action
			Disaster Recovery Plan will be updated.
Assets stocktake - final			
Perform a physical stocktake to verify if assets included in the fixed asset register still exist.	Pending	Beneficial	The District Council does not plan to perform a stocktake this year but will do so in the future. A lack of detailed asset knowledge is an issue raised as part of the 2018-28 LTP review.

Service request system

Recommendation	
<p>1 In relation to the system which supports a number of customer requests/complaints measures, develop processes and controls that can be put into place to:</p> <ul style="list-style-type: none"> Record the time of notification and ensure all customer services requests are recorded in a consistent manner (i.e. record all calls/complaints about sewerage or drinking water supply in the customer service request system at the time those calls are received). Accurately record the time of attendance by the contractor – explore options with the contractor to record job data and auto-update the information in the customer service request system. The District Council needs to consider what controls it can put in place to ensure that the attendance time recorded on the paper job card is transferred accurately into the service request system; (Contractors now access to the system to record the time of attendance) Accurately record the resolution time by the contractor. The same considerations need to be given to this as above for attendance times; and Provide training and develop guidance material for the customer service officers that are taking the calls in the first instance so that the classification for such events is accurate. 	<p>2 For information provided from the contractor, the District Council will need to engage and train the contractor on how to record the required information. The contractor may need live access to the service request module to achieve this (contractors do have access).</p>
Progress	
<p>The District Council has hired a business analyst to assess the process and improve the system. Council is also working with MagiQ to set up the system so that it is more functional and user-friendly.</p> <p>Manuals are being developed for front-line staff to ensure that they know how to use the system.</p> <p>The business analyst has been working on an application that contractors can download to log information more accurately. The District Council is working with one of the District Council's main contractors, Westroads, to ensure that the information flowing through the application is accurate and complete.</p>	

Report



DATE: 27 September 2018

TO: Mayor and Councillors

FROM: Group Manager: Corporate Services

UPDATE ON ANNUAL REPORT RESULT 2017-18

1 SUMMARY

- 1.1 The purpose of this report is to present an update on the Draft Annual Report result 2017-18 that has been provided to Audit NZ for the audit process to begin.
- 1.2 This issue arises from the requirements of the Local Government Act 2002.
- 1.3 Council seeks to meet its obligations under the Local Government Act 2002 and the achievement of the District Vision adopted by Council as part of the Long Term Plan 2018-28. These are stated on Page 2 of this agenda.
- 1.4 This report concludes by recommending that Council receive the update on the Draft Annual Report result 2017-18 as provided to audit NZ .

2 BACKGROUND

- 2.1 Section 98 of the Local Government Act 2002 requires the Audited Annual Report to be formally adopted by Council, within 4 months after the end of the financial year to which it relates.
- 2.2 Council has met the statutory deadline for adoption of an Annual Report each year since 2015.
- 2.3 The purpose of the Annual Report is to inform the community on Council's financial performance and service delivery, compared to objectives contained in the Annual Plan and Long Term Plan.

3 CURRENT SITUATION

3.1 The Annual Report is subject to audit review which began on Monday 24 September 2018 and is planned to be completed on 19 October 2018. The Final Annual Report 2017-18, complete with Audit Opinion, will be presented at extra-ordinary meeting after 26 October 2018.

3.2 This Annual Report measures performance against the Annual Plan and third year of the Long Term Plan 2015-25.

3.3 Council and the Group meet the criteria as a Tier 1 entity under the Public Benefit Entity Accounting Standards, and the Annual Report 2017-18 has been prepared in accordance with Tier 1 reporting requirements.

3.4 Summary:

3.4.1 The draft Annual Report result shows a deficit of \$1.6 million, which is \$4.1 million unfavourable to budget. The variance includes the following significant items:

Description	Variance to Budget (\$ 000)	Cash Variance to Budget (\$ 000)	Non-Cash Variance to Budget (\$ 000)
Refuse Aftercare provision	- 2,196		- 2,196
Loss on Disposals	- 381		- 381
NZTA Subsidy	- 350	- 350	
Contractors	- 309	- 309	
Water Repairs, Maintenance & Monitoring	- 284	- 284	
Loss on Swaps	- 228		- 228
Consultant Fees	- 158	- 158	
Dividends	- 153	- 153	
Rates Write Off & Remissions	- 144	- 144	
Building fees & consents	- 131	- 131	
Trade Waste Fees	- 107	- 107	
Admission fees	- 92	- 92	
Audit Fees	- 73	- 73	
Salaries & Wages - positive variance	384	384	
TIFF Subsidies - positive revenue variance	725	725	
Loss on revaluation of Assets	- 151		- 151
Loss on disposal of revalued Assets	- 54		- 54
Other Revenue & Expenditure Variances	- 435	- 435	
	- 4,135	- 1,126	- 3,009

3.4.2 The landfill provision is an accounting entry for Councils estimate of aftercare required on the landfills to ensure compliance with resource consents over the life of the landfills. With the updated asset

management information, Council staff have better information and have updated the assumptions that form the basis of the provision.

The landfill provision is offset by budgeted work each year on the landfills.

The landfill provision itself is unbudgeted and unfunded as it has no effect on ratepayers and is an accounting adjustment under Generally Accepted Accounting Principles (GAAP).

- 3.4.2 Depreciation losses for assets disposed of and not sold. This is a non-cash accounting adjustment which although must be accounted for under the surplus/deficit does not impact cash reserves.
- 3.4.3 The NZTA subsidy was lower than budget mainly due to the Whitcombe Valley Road project not being completed by 30 June 2018, this therefore resulted in the full subsidy not being claimed.
- 3.4.4 Swap losses are non-cash accounting adjustments, they are based on the economic market at the time and are generally volatile and difficult to predict by nature. They do not affect cash reserves, and the amount of loss that is accounted for, would only materialise if the swap were cashed in before maturity.
Swaps are an important aspect of interest rate risk management and reduces the effect of swings up and down of interest rates.
- 3.4.5 Consultant's costs were greater than budget due to unfilled staff vacancies, the cost of the consultants is offset by lower personnel costs. Once these vacancies are filled, some of the work that the consultants completed for Council will be brought back in-house.
- 3.4.6 Fees and charges revenues in various areas of activity were lower than budgeted, the revenue received was in line with previous years.
- 3.4.7 The long term plan audit and the financial year-end audit 2016/17 overran, and therefore further audit fees were incurred. The reasons for these overruns was discussed in the respective Audit Management reports, however were mainly due to unfilled vacancies and lack of asset information.
- 3.4.8 Council received unbudgeted revenue for Tourism Infrastructure Funding to replace toilets around the district. The expenditure on these projects has been capitalised and therefore does not go through the surplus/deficit.

Council will continue to take the opportunity to apply for all external funding sources when available.

3.4.9 Land and Buildings have been revalued as at 30 June, this has resulted in some impairments, which are accounted for under 'other comprehensive revenue and expense'. There were some significant decreases in value of some buildings, which include the Carnegie building and the Hokitika Swimming Pool. This is a non-cash entry, which affects Councils revaluation reserves in the balance sheet.

3.4.10 During the year there were some disposals of revalued assets, this resulted in a non-cash entry, which affects Councils revaluation reserves in the balance sheet.

3.4.11 The other revenue and expenses variance included Council approved unbudgeted expenditure amounting to \$154,000 which includes the items in the table below:

Description	Amount Approved \$	Amount Spent \$	Status
5.9 Sunset Point Erosion	2,880	2,880	Complete.
10.1 Hokitika Regent Theatre	30,000	30,000	To allow time for formulation of long-term emergency recovery strategy.
7.2 Hokitika SPCA	20,000	20,000	Contribution towards fit-out of dog pound.
5.3 Management of the Carnegie Building	40,000	40,000	Monthly management Fee
5.5 Heating for the Harihari Community Swimming Pool	52,669	52,469	Harihari
5.5 Heating for the Harihari Community Swimming Pool	9,000	9,000	Township development fund - Reserve Funded
	154,549	154,349	

Other variances under this section have yet to be analysed, but will be reported once the final audit is completed.

3.4.12 Public debt has increased by a net \$1.2 million. This is made up of debt repayments of \$1.8 million and further drawdown of debt funding of \$3.0 million. However the overall debt balance was lower than budgeted by \$4 million, this was mainly due to projects that were not completed during the financial year. These have either been re-scoped into the long term plan or are planned to be carried over into the next financial year.

3.4.13 Cash and Cash receivables are \$4.8m lower than budget, this is due to unbudgeted/unfunded expenditure using up cash reserves and also higher than budgeted Trade receivables, \$3.1 million which are expected to be timing differences between invoicing and payment.

3.4.14 The Annual Report also contains Statements of Service Performance (SSP) for each activity, with KPIs assessed against the measures that were included in the Long Term Plan 2015-25.

These will be reported in full after the final audit has been completed.

4 OPTIONS

4.1 Council can chose to receive or not the update on the Annual Report result.

5 SIGNIFICANCE AND ENGAGEMENT

5.1 The update of an Annual Report result is administrative and of low significance.

5.2 No public consultation is required. The Update of the Annual Report result is intended to inform the community.

6 ASSESSMENT OF OPTIONS (INCLUDING FINANCIAL IMPLICATIONS)

6.1 The report is to provide an update of the Annual Report result only, and it should be noted that there might be adjustments to the result because of audit.

7 RECOMMENDATION

7.1 **THAT** Council receive the update on the Draft Annual Report result 2017-18 as provided to Audit NZ.

Lesley Crichton
Group Manager: Corporate Services

FINANCE, AUDIT AND RISK COMMITTEE ROLLING WORK PLAN

Item	Sept-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	April-19	May-19	June-19	July-19	Aug-19
External Audit	Note - Final Audit Annual Report 2017/18 begins LTP Audit Management Report – Final Interim Audit Management Report 2017/18 – review action to be taken by management					Audit Management Report 2017/18 Meet Audit Director if necessary				Interim Audit 2018/19		
Financial Reporting		Review Audited Annual Report 2017/18 – for recommendation of adoption to Council Quarterly Report to September 2018			Quarterly Report to December 2018			Quarterly Report to March 2019				Verbal update on year end
Insurance		Valuation Information	Renewal									
Risk Management Framework		Review Risk Register			Review Risk Register			Review Risk Register			Update on Health & Safety Legislation Review Risk Register	
Internal Control Framework		Review Current Policies and set Action Plan			Update – Internal Audit			Update			Update	