

Notice is hereby given that an ordinary meeting of the Finance, Audit & Risk Subcommittee will be held on:

**Date:** Wednesday 27 March 2019  
**Time:** 4.00 pm  
**Meeting Room:** Council Chambers  
**Venue:** Horowhenua District Council  
Levin

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## **Finance, Audit & Risk Subcommittee**

### **OPEN AGENDA**

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#### **MEMBERSHIP**

<b>Chairperson</b>	Mr Philip Jones	
<b>Deputy Chairperson</b>	Mr Barry Judd	
<b>Members</b>	Mr Wayne Bishop	
	Mr Ross Brannigan	
	Mr Ross Campbell	
	Mayor Michael Feyen	
	Mr Neville Gimblett	
	Mrs Victoria Kaye-Simmons	
	Mrs Jo Mason	
	Mrs Christine Mitchell	
	Ms Piri-Hira Tukapua	
	Mr Bernie Wanden	
<b>Reporting Officer</b>	Mr Doug Law	(Chief Financial Officer)
<b>Meeting Secretary</b>	Mrs Karen Corkill	

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Website: [www.horowhenua.govt.nz](http://www.horowhenua.govt.nz)

**Full Agendas are available on Council's website**  
[www.horowhenua.govt.nz](http://www.horowhenua.govt.nz)

**Full Agendas are also available to be collected from:**  
**Horowhenua District Council Service Centre, 126 Oxford Street, Levin**  
**Te Awahou Nieuwe Stroom, Foxton,**  
**Shannon Service Centre/Library, Plimmer Terrace, Shannon**  
**and Te Takeretanga o Kura-hau-pō, Bath Street, Levin**



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**1 Apologies**

**2 Public Participation**

Notification to speak is required by 12 noon on the day of the meeting. Further information is available on [www.horowhenua.govt.nz](http://www.horowhenua.govt.nz) or by phoning 06 366 0999.

See over the page for further information on Public Participation.

**3 Late Items**

To consider, and if thought fit, to pass a resolution to permit the Council to consider any further items which do not appear on the Agenda of this meeting and/or the meeting to be held with the public excluded.

Such resolution is required to be made pursuant to Section 46A(7) of the Local Government Official Information and Meetings Act 1987, and the Chairperson must advise:

- (i) The reason why the item was not on the Agenda, and
- (ii) The reason why the discussion of this item cannot be delayed until a subsequent meeting.

**4 Declarations of Interest**

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of the items on this Agenda.

**5 Confirmation of Minutes**

**5.1 Meeting minutes Finance, Audit & Risk Subcommittee, 27 February 2019**

**6 Announcements**

Public Participation (further information):

The ability to speak at Council and Community Board meetings provides the opportunity for members of the public to express their opinions/views to Elected Members as they relate to the agenda item to be considered by the meeting.

Speakers may (within the time allotted and through the Chairperson) ask Elected Members questions as they relate to the agenda item to be considered by the meeting, however that right does not naturally extend to question Council Officers or to take the opportunity to address the public audience be that in the gallery itself or via the livestreaming. Council Officers are available to offer advice too and answer questions from Elected Members when the meeting is formally considering the agenda item i.e. on completion of Public Participation.

Meeting protocols

1. All speakers shall address the Chair and Elected Members, not other members of the public be that in the gallery itself or via livestreaming.
2. A meeting is not a forum for complaints about Council staff or Council contractors. Those issues should be addressed direct to the CEO and not at a Council, Community Board or Committee meeting.
3. Elected members may address the speaker with questions or for clarification on an item, but when the topic is discussed Members shall address the Chair.
4. All persons present must show respect and courtesy to those who are speaking and not interrupt nor speak out of turn.
5. Any person asked more than once to be quiet will be asked to leave the meeting

# Projects Update

File No.: 19/82

## 1. Purpose

To provide the Finance, Audit and Risk Subcommittee with an update of the projects being undertaken by the Infrastructure Projects Team.

## 2. Recommendation

- 2.1 That Report 19/82 Projects Update be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

## 3. Issues for Consideration

Information is provided in the attached reports.

## Attachments



No.	Title	Page
A	Levin WW_Land_Treatment-190318-rc	8

### Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

## Signatories

Author(s)	Gerry O'Neill <b>Planning Manager</b>	
Approved by	Rob Green <b>Acting Group Manager - Infrastructure Services</b>	

# Levin Wastewater Land Treatment Project Overview Summary 19 February 2019

Current Status
<input type="checkbox"/> Consent application has been publically notified.
<input type="checkbox"/> Pine forest harvest completed and harvest signoff process underway
<input type="checkbox"/> Irrigation upgrade design proposal prepared
<input type="checkbox"/> Replanting partly completed.
<input type="checkbox"/> Community meeting held on 19 March 2019 prior to close of submissions

What's Needed?
<input type="checkbox"/> Care managing relationships and community input to consent application.
<input type="checkbox"/> Pine forest harvest contract account reconciliation and final settlement.
<input type="checkbox"/> Development of a site activity plan for next 3 years.
<input type="checkbox"/> Replanting design approval required
<input type="checkbox"/> Irrigation design approval required

Key Dates
• Resource consent submissions close 5 April 2019.
• Further pine and native planting starting May 2019.
• Irrigation redevelopment plans finalised June 2019.

## Overview of scheme:

- Located at the end of Hokio Sand Road, the property known as The Pot receives 100% of Levin's wastewater as irrigation.
- This land treatment facility has been in operation since 1991 (1987 development and planting).
- Ownership includes half the property leased from Muaūpoko Land Trust and the other half owned by HDC. HDC also own the property to the east known as the Tucker block. This is currently leased for grazing.
- Currently the site is operated under resource consents 6610 and 6921 that expired December 2018.
- The consent application for renewal of the Levin wastewater land treatment (LWWLT) was submitted in June 2018.
- The consent application is supported by extensive investigations that began in 2012 to determine the effects of wastewater at the site after near 30 years of operation. The application includes 27 reports that detail the LWWLT and the effects it is having to the environment.
- A trial is being undertaken on 10ha of the site to determine if irrigating wastewater onto Manuka/Kanuka dominated ecosystems will improve water quality in the Waiwiri Catchment.
- The consent process is part of a larger programme looking at the management of the site, irrigation redevelopment, replanting, mitigation of impacts on water quality and future planning.





## Work to date:

- Land discharge consent expired December 2018. Council is allowed to continue operating under the old consent conditions until a decision is made on the new consent application.
- Site investigations and data collation for consent renewal began in 2012.
- LEI coordinated groundwater, surface water, soil and ecology investigations and reporting for the consent; and assisted with consultation with the community.
- Consent lodged 22 June 2018 – publicly notified and currently out for submissions.
- Irrigation upgrade underway to maintain existing system and upgrade to match proposed consent, including expansion of area and automation.
- 5 year ecosystem trial started at The Pot 2018; environmental monitoring starting in 2019.
- Consent consultation initiated a catchment care group; this is continuing.
- Harvest of pine trees completed early February 2019.
- 30 ha of pines replanted 2018 with further planting planned for 2019.
- Consent procured for northern adjacent neighbour to receive wastewater from The Pot; plans

## Risk Management:

Risk Area	Risk Description	Initial (GAR)	Risk Assessment (Low to Extreme) without control	Control	Residual (GAR)
<b>Strategic</b>	Community and iwi conflict with consent objectives	R	Drawn out consent process, leading to community tension and additional costs.	Community engagement, further explanation of system and catchment care group	A
<b>Financial</b>	Exceedance of budget	A	Short of funds across HDC	Financial planning and budgeting.	G
<b>Service Delivery</b>	Change of staff	A	Pond spillages, over irrigation and greater environmental impacts than currently experienced	Support staff brought in earlier to understand system. Sounds operational documentation.	G
<b>Legal</b>	Environment court for consent process	R	Drawn out consenting process leading to significant costs.	Extended submission period to increase engagement.	A
<b>Reputational</b>	Appearance of The Pot without tree cover	A	Judgement of The Pot without trees.	Community engagement and planting plan.	G

## Consultation and affected parties:

Consultation has been undertaken with the community about the re-consenting project for Levin wastewater land treatment at The Pot. This is summarised in Appendix B of the consent application. As an introduction:

The consultation programme included the following avenues to exchange information:

- 11 Meetings since 2016 (18 different representative groups and individuals attended);
- Common web portal for sharing technical reports - Objective Connect;
- Update and invite emails;
- Report Summary Booklet (HDC, 2018:D2a); and
- Catchment management meetings.

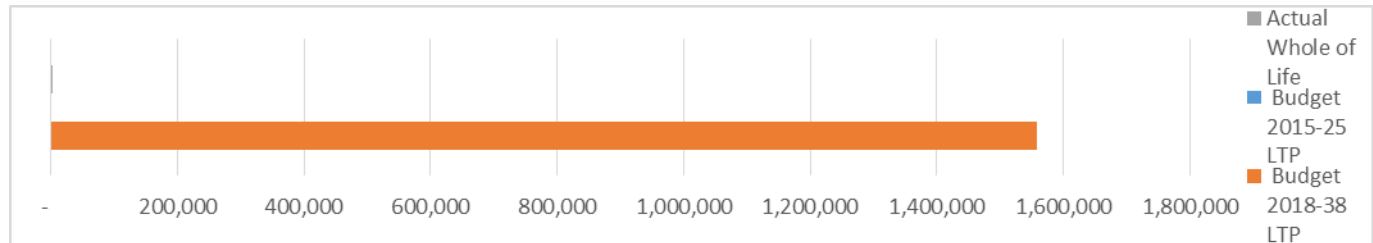
The submission period for resource consenting has been extended to enable further sharing of information with iwi, HEKA and WECA, and other interested parties. A resource consent pre-submission public meeting was held on 19 March attended by 25 community members. A summary of the consent package was presented and questions were answered. Council is reporting back with further technical information. Specifically this includes details on the fate of landfill leachate in the system, timing of implementation of changes, use of additional land and impacts of the high loading rates.

## Financials:

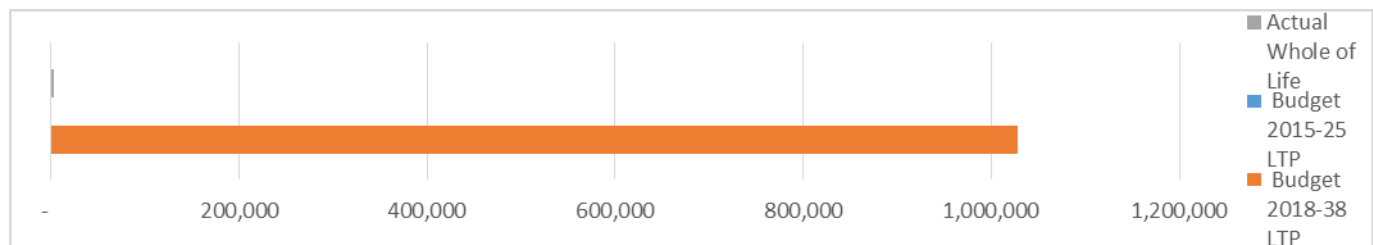
The funding arrangements are loan funded for the Strategic Upgrade part and reserve funded for the renewal part.

The proposed combined cost of the project is \$2,587,000 over the expected lifespan of the project.

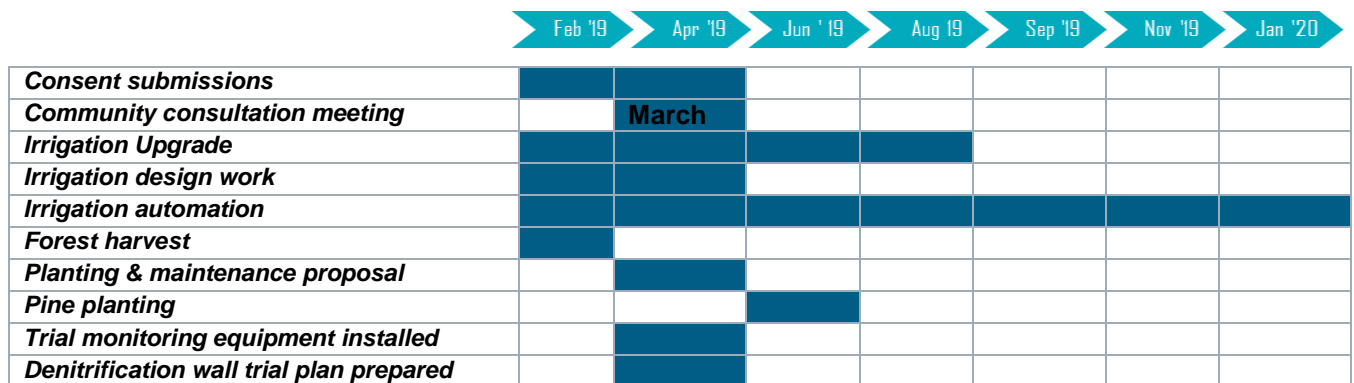
### Levin wastewater treatment plant – POT – (Renewal) (Reserves Funded \$1,599,000)



### Levin wastewater treatment plant - Strategic upgrade POT – (LOS) (Loan Funded \$1,028,000)



## Timeline:



# Eight Month Report 1 July - 28 February 2019

File No.: 19/73

## 1. Purpose

To present to the Finance, Audit & Risk Subcommittee the financial report for the seven months to 28 February 2019.

## 2. Recommendation

- 2.1 That Report 19/73 Eight Month Report 1 July - 28 February 2019 be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

## 3. Issues for Consideration

As included in the **attached** report.

## Attachments



No.	Title	Page
A	Financial Reporting - Monthly Report - 28 February 2019 - FINAL	12

### Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

## Signatories

Author(s)	Doug Law Chief Financial Officer	
Approved by	David Clapperton Chief Executive	



# Eight Month Report

1 July 2018 - 28 February 2019



## Executive Summary

### A. Trends and Activity of Interest

#### 1. Resource Consenting

- 162 consents have been lodged as at 28 February 2019 compared to 127 at the same time last year.
- 67 subdivision consents approved as at 28 February 2019, compared to 46 at the same time last year.
- As at 28 February 2019 a total of 90 new allotments have been created as a result of s223 (approval of title plan) & 59 new allotments have been created as a result of s224 (completion of physical works) certificates being issued for subdivisions.

#### 2. Building Consents

- Value of consents issued as at 28 February 2019 is \$69,554,881 compared to \$60,439,698 for the same period last year.
- 435 consents issued as at 28 February 2019, compared to 425 for the same period last year.
- 157 new dwelling consents at 28 February 2019 against 143 for the same period in the 2017/2018 year.
- 432 building consents were lodged as at 28 February 2019 compared to 446 for the same period in the 2017/18 year.

Resource Consent activity and the level of enquiries has risen this month with a slightly higher level of activity that was experienced in 2017/18.

As noted in 2. above, the number of Building Consents lodged YTD is lower than the same period in 2017/18, but the value, number of consents, and the number of new dwelling consents issued is higher than in 2017/18.

### B. Financial Performance – Operational Expenditure

Council shows a \$1.12m deficit against a budgeted surplus of (\$2.05m). It is 66.6% through the year and Council has spent 68% of the full year's budgeted expenditure and received 65% of the full year's budgeted income.

### C. Financial Performance - Financial Position

Council has borrowed a net \$24m in the first half of the financial year, \$12m of this has been invested as it is effectively prefunding the loans that mature this year in March (\$12m). Once these repayments have occurred the gross debt will reduce by \$12m. We have also increased the cash reserves in anticipation of capital expenditure in the next 4 months.

Council has purchased \$15.08m in fixed assets in the first 8 months against a capital budget of \$23.01m for the first eight months and \$34.5m for the year.

**Doug Law**  
Chief Financial Officer

18 March 2019

Total revenue	Total expenditure	Total surplus/(deficit)
<b>\$35.23m</b> is 4% less than the total budget of \$36.62m	<b>\$36.35m</b> is 5% more than the total budget of \$34.57m	<b>(\$1.12m)</b> is 155% less than the total budget of 2.05m

## SUSTAINABILITY

### Rates to operating revenue 70%

Rates revenue	\$24.79m
Operating revenue	\$35.23m

70% of operating revenue is derived from rates revenue. Rates revenue excludes penalties, water supply by meter and is gross of remissions. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives.

### Balance budget ratio 98%

Operating revenue	\$35.23m
Operating expenditure	\$36.10m

Operating revenue should be equal or more than operating expenditure. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives. Operating expenditure includes depreciation and excludes loss on derivatives, landfill liability and loss on asset revaluations. Year to date revenue is 98% of operating expenditure.

### Net Debt to total projected revenue 159%

Total net borrowing	\$85.97m
Total projected operating revenue	\$54.22m

With net borrowing of \$85.97m we are still under the set limit of 195% of operating revenue. Total net borrowing is external borrowing less cash at bank.

### Interest to rates revenue (LGFA Cov.) 8%

Net Interest	\$2.07m
Rates revenue	\$24.79m

8% of rates revenue is paid in interest. Our set limit is 25% of rates revenue. Net interest is interest paid less interest received. Rates revenue excludes penalties, water supply by meter and gross of remissions.



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**Interest to operating revenue (LGFA Cov.)** **6%**

Net Interest	\$2.07m
Operating revenue	\$35.23m

6% of operating revenue is paid in interest. Our set limit is 20% of operating revenue. Net interest is interest paid less interest received.

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**Available financial accommodation to external indebtedness (LGFA Cov.)** **112%**

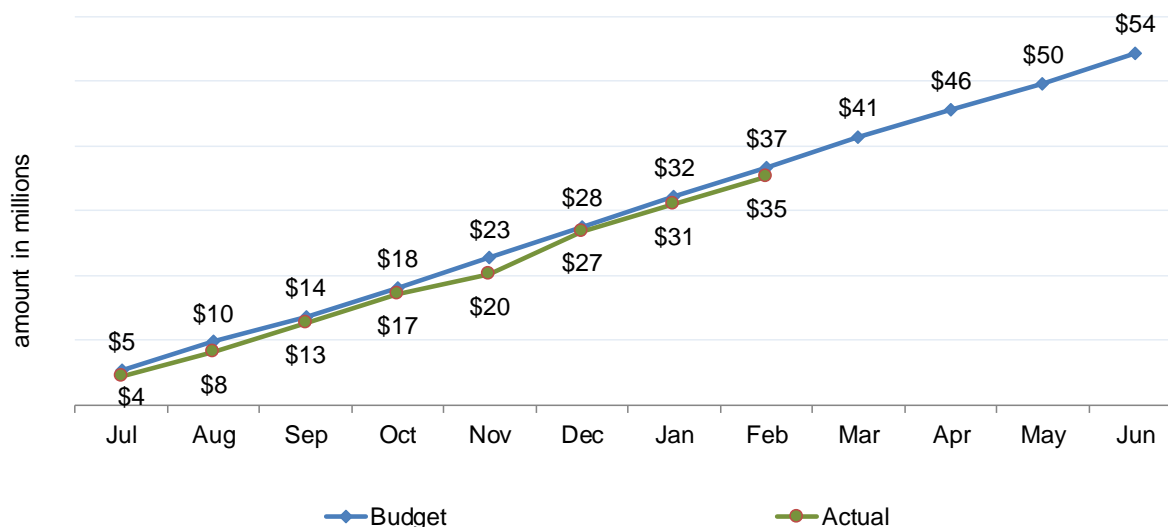
Net debt	\$85.97m
Undrawn committed facilities	\$10.00m

The committed bank facility enables us to borrow up to 112% of our current external debt immediately. The LGFA covenant minimum is 110%.

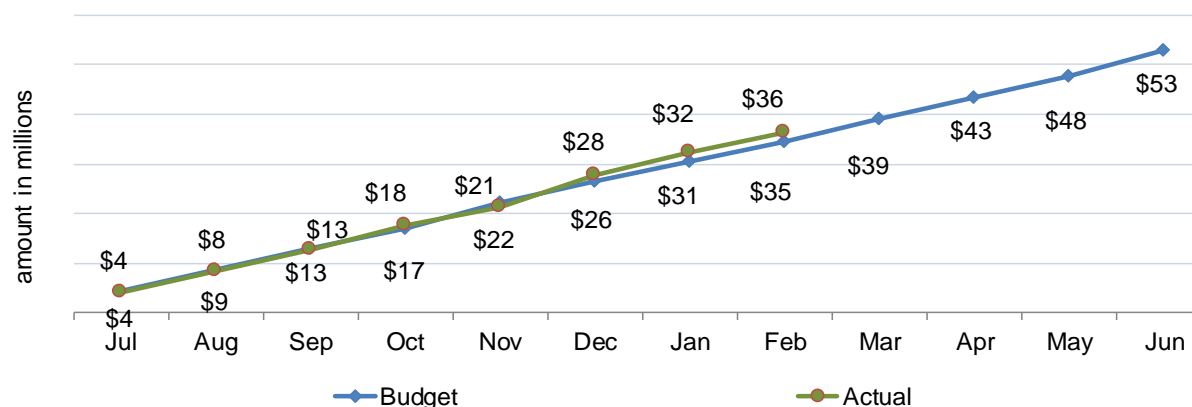
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## Operational Summary

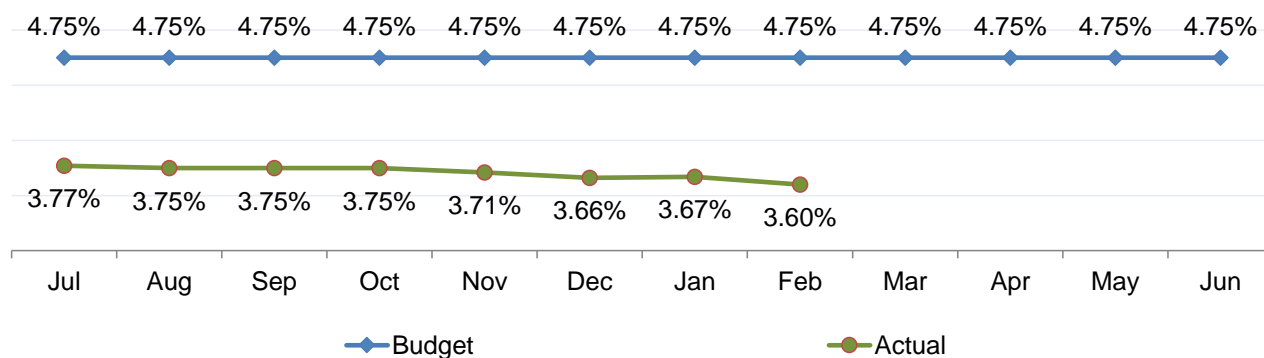
Total Revenue \$m



Total Expenditure \$m



Interest rate movement

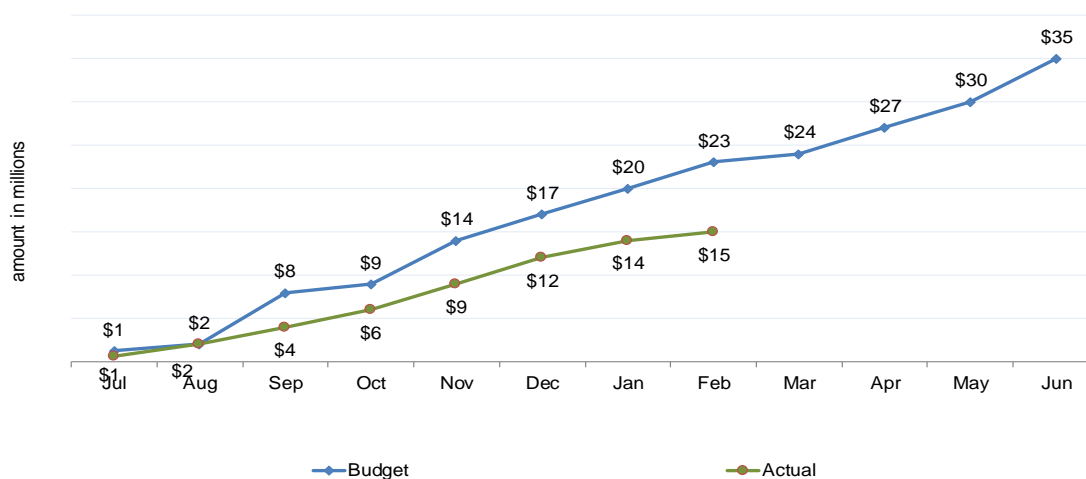




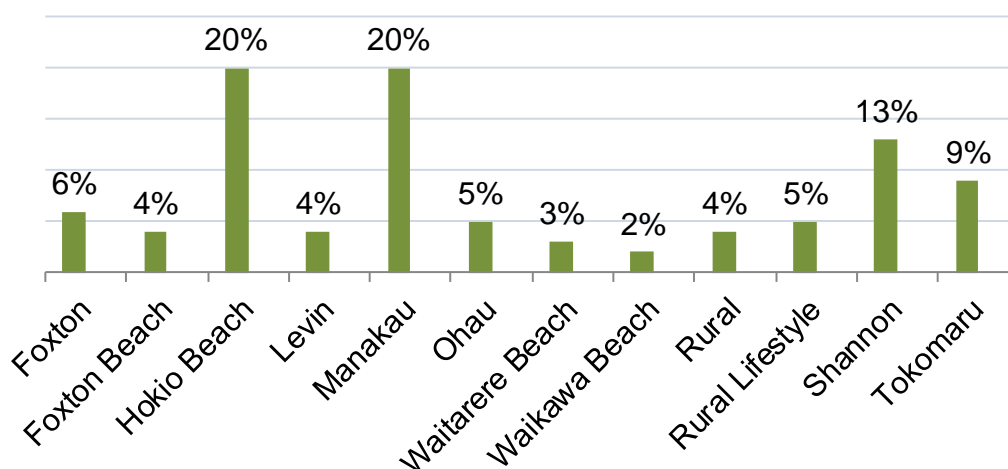
## Capital Summary

To meet growth	To improve service	To replace
<b>\$0.48m</b>	<b>\$5.67m</b>	<b>\$8.93m</b>
is 82% less than the YTD budget of \$2.62m	is 43% less than the YTD budget of \$9.91m	is 15% less than the total budget of \$10.48m

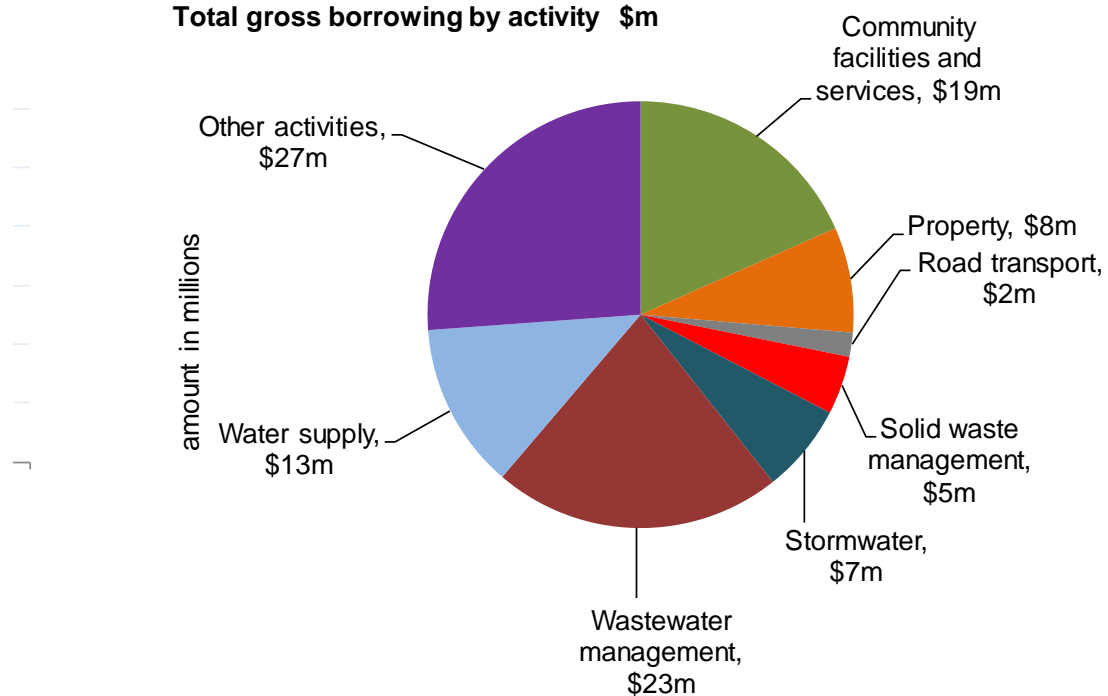
Total Capital Expenditure



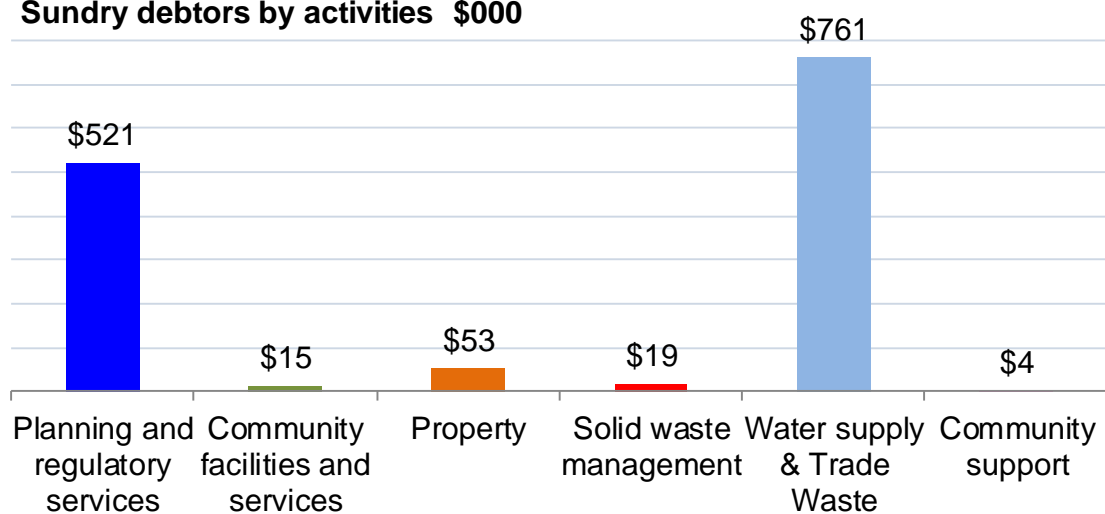
Rates debtors % with arrears over \$99



**Total gross borrowing by activity \$m**



**Sundry debtors by activities \$000**



## Statement of Comprehensive Revenue and Expense

As at 28 February 2019										
	Year End Projection 2019 \$000	Annual Plan 2019 \$000	Annual Plan YTD Dec-18 \$000	Actual YTD Dec-18 \$000	C/A % Actual to Budget	Variance YTD 2018 \$000	Var/Bud %	% of Total Bud %	Notes	
<b>Revenue</b>										
Rates Revenue	(38,359)	(38,362)	(25,211)	(25,428)	66.3% ☹	(217)	1%	0.4%		
Grants & Subsidies	(6,460)	(6,460)	(5,079)	(4,055)	62.8% ☹	1,024	-20%	-1.9%	1	
Finance Income	(205)	(205)	(163)	(53)	25.9% ☹	110	-67%	-0.2%		
Fees, charges,	(6,121)	(5,664)	(3,653)	(3,403)	60.1% ☹	250	-7%	-0.5%		
Other Revenue	(2,632)	(3,560)	(2,512)	(2,271)	63.8% ☹	241	-10%	-0.4%		
Development Contributions	-	-				-		0.0%		
Gain on Derivatives								0.0%		
Gain Disposal of Assets				(22)	☹	(22)		0.0%		
Investment (Gains)/Losses	(120)	(120)	-			-		0.0%		
Vested Assets		-	-	-		-		0.0%		
<b>Total Revenue</b>	<b>(53,897)</b>	<b>(54,371)</b>	<b>(36,618)</b>	<b>(35,232)</b>	<b>64.80% ☹</b>	<b>1,386</b>	<b>-4%</b>	<b>-2.5%</b>		
<b>Expenditure</b>										
Employee Benefit Expenses	14,024	13,975	9,126	9,580	68.6% ☹	454	5%	0.9%		
Finance costs	3,577	3,800	2,184	2,125	55.9% ☹	(59)	-3%	-0.1%		
Depreciation and Amortisation	13,489	13,489	8,993	9,309	69.0% ☹	316	4%	0.6%		
Other Expenses	22,460	21,453	14,270	15,086	70.3% ☹	816	6%	1.5%	2	
Loss on disposal of assets		-				-		0.0%		
Revaluation losses		-				-		0.0%		
Loss on Derivatives			0	252	☹	252		0.5%	3	
<b>Total Expenses</b>	<b>53,550</b>	<b>52,717</b>	<b>34,573</b>	<b>36,352</b>	<b>68.96% ☹</b>	<b>1,779</b>	<b>5%</b>	<b>3.4%</b>		
<b>Operating (surplus) deficit before taxation</b>	<b>(346)</b>	<b>(1,654)</b>	<b>(2,045)</b>	<b>1,120</b>	<b>-67.7%</b>	<b>3,165</b>	<b>-155%</b>	<b>6.0%</b>		

### Note 1

Roading subsidies are lower by \$1.2m from the budget prediction resulting from lower than expected capital expenditure. Council is postponing two projects until the new financial year. The projects are:

- Poads Road Bridge Replacement – This will be incorporated into the Gladstone Road realignment project to get better value for money.
- The Queen St Cambridge St Roundabout – The water main's new pressure reducing valve at this location needs to be installed first before we can do this project. It is getting later into the construction season and we do not want to run into winter.

Note 2	Year End Projection 2019 \$000	Annual Plan 2019 \$000	Annual Plan YTD Oct-18 \$000	Actual YTD Oct-18 \$000	% Actual to Budget	Variance YTD 2018 \$000	% Var/Bud %	% of Total Bud %	Notes	
Professional Services	4,092	3,158	1,754	2,937	93.0% ☹	1,183	67%	2.2%	2A	
Materials	109	109	76	60	55.0% ☹	(16)	-21%	0.0%		
Maintenance	12,880	13,176	8,859	8,284	62.9% ☹	(575)	-6%	-1.1%		
Grants Paid	753	793	371	418	52.7% ☹	47	13%	0.1%		
Utilities	1,198	1,083	707	748	69.1% ☹	41	6%	0.1%		
Communications	263	268	180	153	57.1% ☹	(27)	-15%	-0.1%		
Other Expenses	5,102	5,289	3,903	3,618	68.4% ☹	(285)	-7%	-0.5%		
Vehicle Expenses	168	159	111	87	54.7% ☹	(24)	-22%	0.0%		
Treasury Expenses	164	70	78	69	98.6% ☹	(9)	-12%	0.0%		
Labour Recoveries for Capex projects	(2,269)	(2,652)	(1,768)	(1,290)	48.6% ☹	478	-27%	0.9%	2B	
<b>Total Other Exepnses</b>	<b>22,460</b>	<b>21,453</b>	<b>14,271</b>	<b>15,084</b>	<b>70.3% ☹</b>	<b>813</b>	<b>6%</b>	<b>1.5%</b>		

### Note 2A – Professional services – unfavourable variance

- \$269k timing difference relating to Economic Development.
- Growth response projects totalling \$574k – refer to explanation under Representation and Community Leadership in the Activity variance section.

- **Note 2B –** Labour recoveries for labour posted to CAPEX projects –  
Unfavourable variance \$478k reflects the lower capital project expenditure than budgeted for in infrastructure.
- **Note 3 –** unrealised loss on derivatives (swaps) unfavourable variance of 252k  
We have valued these now rather than at the end of the year. They reflect the lower interest rates currently being experienced

## Statement of Comprehensive Revenue and Expense by Activity

66.7%	A		C	D	E	F	G	H	I	J
REVENUE	Annual Plan 2018/2019 \$000	Projected to 30/06/2019 \$000	Year to date (YTD) This Year \$000	Budget \$000	% Actual to Budget	D-C YTD Variance \$000	% Var/Bud	% of Total Bud		Notes to Accounts
<b>Significant Activities</b>										
Regulatory Services	(4,762)	(4,641)	(3,126)	(3,297)	65.6%	⊗ (171)	-5.2%	-0.3%		
Community Facilities and Ser	(12,976)	(12,854)	(8,467)	(8,666)	65.3%	⊗ (199)	-2.3%	-0.4%		
Road Transport	(10,356)	(10,355)	(6,484)	(7,736)	62.6%	⊗ (1,252)	-16.2%	-2.3%		1
Water Supply	(6,683)	(6,683)	(4,389)	(4,234)	65.7%	⊗ 155	3.7%	0.3%		
Wastewater Disposal	(8,353)	(8,352)	(5,748)	(5,412)	68.8%	⊙ 336	6.2%	0.6%		
Solid Waste	(2,457)	(2,458)	(1,381)	(1,648)	56.2%	⊗ (267)	-16.2%	-0.5%		2
Stormwater	(1,051)	(1,051)	(702)	(701)	66.8%	⊙ 1	0.1%	0.0%		
Treasury	(4,432)	(3,813)	(2,440)	(2,983)	55.1%	⊗ (543)	-18.2%	-1.0%		3
Property	(1,549)	(1,549)	(1,012)	(966)	65.3%	⊙ 46	4.8%	0.1%		
Community Support	(2,550)	(2,426)	(1,652)	(1,706)	64.8%	⊗ (54)	-3.2%	-0.1%		
Representation & Com. Leads	(3,936)	(3,936)	(2,723)	(2,624)	69.2%	⊙ 99	3.8%	0.2%		
<b>Total Activity Revenue</b>	<b>(59,105)</b>	<b>(58,118)</b>	<b>(38,124)</b>	<b>(39,973)</b>	<b>64.5%</b>	<b>⊗ (1,849)</b>	<b>-4.6%</b>	<b>-3.4%</b>		
<b>Business Units</b>	<b>(21,832)</b>	<b>(21,807)</b>	<b>(15,289)</b>	<b>(14,564)</b>	<b>70.0%</b>	<b>⊙ 725</b>	<b>5.0%</b>	<b>1.3%</b>		
<b>Total Operating Revenue</b>	<b>(80,937)</b>	<b>(79,925)</b>	<b>(53,413)</b>	<b>(54,537)</b>	<b>66.0%</b>	<b>⊗ (1,124)</b>	<b>-2.1%</b>	<b>-2.1%</b>		
66.7%										
EXPENDITURE	Annual Plan 2018/2019 \$000	Projected to 30/06/2019 \$000	Year to date This Year \$000	Budget \$000	% Actual to Budget	D-C YTD Variance \$000	% Var/Bud	% of Total Bud		Notes to Accounts
<b>Significant Activities</b>										
Regulatory Services	4,761	4,763	3,094	3,177	65.0%	⊙ 83	2.6%	0.5%		
Community Facilities and Ser	12,918	12,885	8,212	8,442	63.6%	⊙ 230	2.7%	1.4%		
Road Transport	9,034	8,923	5,644	6,077	62.5%	⊙ 433	7.1%	2.7%		
Water Supply	6,683	6,562	4,761	4,505	71.2%	⊗ (256)	-5.7%	-1.6%		
Wastewater Disposal	7,038	7,257	5,048	4,747	71.7%	⊗ (301)	-6.3%	-1.9%		
Solid Waste	2,128	2,093	2,017	1,436	94.8%	⊗ (581)	-40.5%	-3.7%		4
Stormwater	1,321	1,308	850	893	64.3%	⊙ 43	4.8%	0.3%		
Treasury	5,045	4,942	3,346	3,195	66.3%	⊗ (151)	-4.7%	-1.0%		
Property	1,764	1,597	1,054	1,110	59.8%	⊙ 56	5.0%	0.4%		
Community Support	2,597	3,142	1,928	1,848	74.2%	⊗ (80)	-4.3%	-0.5%		
Representation & Com. Leads	4,111	4,336	3,341	2,610	81.3%	⊗ (731)	-28.0%	-4.6%		5
<b>Total Activity Expenditure</b>	<b>57,400</b>	<b>57,808</b>	<b>39,295</b>	<b>38,040</b>	<b>68.5%</b>	<b>⊗ (1,255)</b>	<b>-3.3%</b>	<b>-1.6%</b>		
<b>Business Units</b>	<b>21,883</b>	<b>21,816</b>	<b>15,238</b>	<b>14,452</b>	<b>69.6%</b>	<b>⊗ (786)</b>	<b>-5.4%</b>	<b>-1.0%</b>		
<b>Total Operating Expenditure</b>	<b>79,283</b>	<b>79,624</b>	<b>54,533</b>	<b>52,492</b>	<b>68.8%</b>	<b>⊗ (2,041)</b>	<b>-3.9%</b>	<b>-2.6%</b>		
<b>Operating (Surplus)/Deficit</b>	<b>(1,654)</b>	<b>(301)</b>	<b>1,120</b>	<b>(2,045)</b>		<b>⊗ (3,165)</b>	<b>-154.8%</b>	<b>-3.99%</b>		

### Note 1

Road Transport Unfavourable variance \$1.25m

- Roothing subsidies are lower by \$1.4m from the budget prediction resulting from lower than expected capital costs: refer to commentary on Poads Bridge and the Queen St. roundabout

### Note 2

Solid waste Income- Unfavourable variance \$267k

Lower income from Waste Transfer stations than budget \$75.8k - As of the new agreement which started in October, revenue from these sites now goes to the contractor (and is effectively subtracted from the operational cost)

- Lower rubbish bag sales than budget \$73.8k – due to timing difference in invoicing for these
- Lower MFE Waste rebate income – timing difference \$134.4k

**Note 3**

Treasury income - Unfavourable variance \$543k;

- Interest received from internal borrowing is \$414k lower due to lower external borrowing costs; this trend will continue for the rest of the year.
- External interest received is \$110k lower due in part to timing differences on investment maturities due in March 2019.
- Rates penalty income is \$17.5k below year to date budget estimate due to lower Rates debt than anticipated.

**Note 4 – Solid Waste – Unfavourable variance \$581k**

- The new recycling contract - \$425k
- Consultants costs on strategy etc. \$154k
- Consent fees related to the landfill \$ 91k

These trends will continue for the rest of the year.

**Note 5 – Representation and Community Leadership – unfavourable variance \$731k**

- Growth response projects totalling \$572k

<b>Growth Reponse projects</b>	<b>YTD Income</b>	<b>YTD Actuals</b>
00009161 - Gladstone Green Master Plan	0	169,723
00009162 - The Lakes Foxton Beach Master Plan	0	18,395
00009163 - Forest Road Waitarere Master Plan		11,820
00009165 - O2NL Planning	0	56,178
00009166 - Growth Strategy	0	119,812
00009168 - Levin Town Centre Planning	0	14,135
00009179 - H2040	-92,500	66,000
00009190 - Foxton River Loop	0	69,000
00009191 - MAVTech Upgrade	0	25,650
00009196 - Project lift	0	15,000
00009205 - Horowhenua Water Party	0	5,000
00009219 - Community Plans	0	928
<b>Total</b>	<b>-92,500</b>	<b>571,641</b>

These projects are vital to Council's vision of being prepared for the growth that we will and are experiencing. Some of the costs are recoverable from NZTA, while others will be funded from anticipated savings elsewhere.

- Iwi Liaison \$65k
  - Consultancy costs \$52k
- Relating to the representation review and the CE's performance plan

## APPENDIX

Asset maintenance contract	General contract works, repairs, planned and unplanned maintenance, materials and consumables, cleaning and hygiene, inspections and reporting.
Finance cost	Interest on borrowings and interest on swaps.
Gains	Fair value revaluation gain and gain on sale.
General grants	Grants given to various organisations and individuals like Creative NZ, neighbourhood support, beach wardens, community development and youth scholarships.
Grants and subsidies	Grants and subsidies received from government and other organisations for roading, library, community hubs, cemeteries and aquatic centres.
Infringements and fines	Parking tickets, Prosecutions on WOFs and unregistered vehicles.
Employee benefits	Salaries and wages, training costs, FBT and ACC levies, superannuation, and staff recognition.
Other expenses	Printing, publication, postage, stationery, advertising, food and catering, photocopying, internet and communication and any other office expenses.
Professional services	Consultants, contractors, membership fees, legal fees, lab services, audit fees or any other professional services charges.
Regulatory revenue	Planning fees, building fees, animal fees, liquor fees and health fees.
Rendering of services	Commissions, car income, and any other income received for rendering services.
Rental income	Rent from Halls, residential and commercial properties, grazing land, reserves and other lease income.
Targeted rates	Rates for roading, waste management, representation and governance, stormwater, wastewater, water by meter and water supply.
User charges	Revenue received from admission, shop sale, Cemetery fees, trade waste, utility connection, events and exhibitions.
Utilities	Water use, electricity and gas charges





File No.: 19/36

## Audit New Zealand - Final Management Report for the year ended 30 June 2018

### 1. Purpose

To present to the Finance, Audit & Risk Subcommittee the Audit New Zealand Management Report for the year ended 30 June 2018.

### 2. Recommendation

- 2.1 That Report 19/36 Audit New Zealand - Final Management Report for the year ended 30 June 2018 be received.
- 2.2 That this decision is recognised as not significant in terms of S76 of the Local Government Act.

### 3. Background / Previous Council Decisions

- 3.1 The Finance, Audit & Risk Subcommittee reviews the Audit Management Report annually as part of the monitoring of Council's Annual Report and financial performance. The report has now been received and is submitted for the FAR Subcommittee to consider.
- 3.2 Debra Perera, the Audit Director from Audit New Zealand, will be in attendance.

### 4. Issues for Consideration

- 4.1 The report highlights any areas of concern raised by the Auditors, their assessment of the financial controls, items from previous audits that remain unresolved, and also items that the Auditor General has asked to be looked into across all local authorities.
- 4.2 Council Officers have been given the opportunity to respond to any audit concerns and these responses are also contained within the report. In summary;
  - The Audit Management Report is designed to report the findings of the Audit to the Mayor and Council.
  - The Subcommittee is able to talk to the auditors without Council Officers being present.
  - The report contains the Officer responses to issues raised in the report to which the Subcommittee is able to seek further clarification from Audit and/or officers.

#### **Confirmation of statutory compliance**

In accordance with section 76 of the Local Government Act 2002, this report is approved as:


- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance

of the decision.

## 5. Appendices

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Author(s)	Doug Law <b>Chief Financial Officer</b>	
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Approved by	David Clapperton <b>Chief Executive</b>	
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AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

# Report to the District Council on the audit of

Horowhenua District Council

For the year ended 30 June 2018

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## Key messages

We have completed the audit for the year ended 30 June 2018. This report sets out our findings from the audit and draws attention to areas where Horowhenua District Council (the District Council) is doing well and where we have made recommendations for improvement.

### Audit opinion

We have issued an unmodified audit opinion dated 24 October 2018. This means that we are satisfied that the financial statements and statement of service performance fairly reflect the District Council's activity for the year and its financial position at the end of the year.

### Significant matters considered during the audit

- **Revaluation of Property, plant and equipment**

The District Council revalued its infrastructure assets as at 1 July 2017. We assessed the work performed by the experts in relation to the objectives for our audit. We were satisfied that the valuations were appropriate and were appropriately recorded in the Financial Statements.

We have noted areas for improvement in the process in section 6.4.

- **Performance measures**

We reconfirmed that the performance framework from the 2015-2025 Long Term Plan remains an appropriate base to enable the District Council to tell a concise performance story.

Overall we are satisfied that the District Council's performance information, reflected through these measures, fairly reflects the actual performance of the District Council for the year. We have noted some areas of continuing improvement in section 6.5 of this report.

- **Improvements to the Annual Reporting Process**

There were issues with the annual reporting process which resulted in delays in completion of the audit and caused the deferral of the signing of the Annual Report to the 24 October 2018.

We have raised several areas for improvement, in section 6.2 of the report, which should address the specific issues found during the 2018 audit. We will continue to work with The District Council management to improve the process going forward.

**Thank you**

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



Debbie Perera  
Appointed Auditor  
21 March 2019

# 1 Recommendations



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

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

## 1.1 Recommendations

The following table summarises our recommendations and their priorities.

Recommendation	Reference	Priority
<b>Use of a "Virtual" Credit card</b> Implement processes and procedures to strengthen controls and access to the virtual credit card, including: <ul style="list-style-type: none"> <li>ensuring the use of the virtual credit card is in line with the District Council's policy on the use of credit cards;</li> <li>allowing only the card administrator to use the card with all approved transactions being processed by that staff member;</li> <li>formal one-up approval for the expenditure to be incurred being provided to the card administrator prior to processing the transaction. This should be filed with supporting transaction documentation; and</li> <li>implementing a monthly independent review and reconciliation of the expenditure on the credit card against the approvals and supporting documentation.</li> </ul>	5.1	Necessary
<b>Creditor Master-file changes</b> <ul style="list-style-type: none"> <li>Review current processes to ensure there is adequate supporting information to verify that creditors and changes to creditors details are bona fide; and</li> <li>Implement a regular review process to remove redundant creditors.</li> </ul>	5.2	Necessary
<b>Lack of segregation of duties in expenditure process</b> <ul style="list-style-type: none"> <li>Review and enhance the purchase order controls in the expenditure system to require purchase orders to be approved on a one up basis; and</li> <li>Require the managers, in charge of the relevant business unit, to review the report developed that highlights self-approved purchase orders/invoices, prior to the payment of these transactions.</li> </ul>	5.3	Necessary
<b>QV to Rating Information Database (RID) reconciliation</b> Retain evidence of the independent review of the annual reconciliation between Quotable Value (QV) and the RID.	5.4	Necessary
<b>Annual Reporting Process</b> Implement audit recommendations to improve the audit process including improving the quality assurance review over the annual report.	6.2	Necessary



Recommendation	Reference	Priority
<b>Funding agreement with third parties</b> <ul style="list-style-type: none"> <li>Formalise agreements between external parties, prior to entering into any future financial transactions, where third parties will be sharing costs with the District Council; and</li> <li>Formalise agreements, with the partners in Te Awahou Nieuwe Stroom project, on the partner's share of the fit-out costs for the Project.</li> </ul>	6.3	Necessary
<b>Revaluation of Infrastructure assets</b> Improve the revaluation asset data by: <ul style="list-style-type: none"> <li>Updating asset condition information and review the reasonableness of asset useful lives;</li> <li>Benchmarking revaluation unit rates against the latest infrastructure contract prices in assessing the assets revalued unit rates;</li> <li>Perform valuations based on first principles where actual contracts, materials and labour costs are used as a basis for the valuation on a 2-3 valuation cycle;</li> <li>Reviewing the assumptions used in the revaluation of the treatment plants; and reviewing and simplifying revaluation templates;</li> <li>Performing a fair value assessment for the wastewater and water land and buildings in the years between the full land and building valuation to determine whether an adjustment is required; and</li> <li>Developing a formal timeline and schedule for the annual infrastructure valuation process.</li> </ul>	6.4.1	Necessary
<b>Updating of the Roding Asset Maintenance Management system (RAMM)</b> Update RAMM on a regular basis with any changes to the asset data, including updated unit rates and perform revaluations in RAMM for future revaluations.	6.4.2	Necessary
<b>Asset reconciliations</b> <ul style="list-style-type: none"> <li>Perform a monthly reconciliation between the fixed assets register (FAR) and the general ledger; and</li> <li>Capitalise operational assets on monthly basis.</li> </ul>	6.4.3	Necessary

Recommendation	Reference	Priority
<b>Review of reported performance measurement information</b> Implement review procedures, over the non-financial performance measures, to ensure the information reported is accurate and complete.	<b>6.5.1</b>	<b>Necessary</b>
<b>Prior year performance management recommendations</b> Implement the recommendations in 6.5.2 to monitor the performance measurement process and ensure continuous improvement of the current process.	<b>6.5.2</b>	<b>Necessary</b>
<b>Approval of Chief Executive's (CE's) expenditure</b> Require expenditure, incurred by the CE, to be approved on a one up basis either by the Mayor (or his delegate) or the Chair of the Audit and Risk Committee.	<b>6.6</b>	<b>Necessary</b>

## 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open		7		7
In progress		9		9
Implemented or closed		4		4
<b>Total</b>	<b>0</b>	<b>20</b>	<b>0</b>	<b>20</b>

## 2 Our audit report

### 2.1 We issued an unmodified audit report



We issued an unmodified audit report on 24 October 2018. This means we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters. Refer to section 3 and section 4 for further detail on these matters.

### 2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management the misstatements that we found, other than those which were clearly trivial. The misstatements, which have not been corrected, are listed below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Expenditure	1				262,000
Non-Current Liabilities			(262,000)		
Expenditure	2				216,000
Plant, Property and Equipment		(216,000)			
Total parent/group		(216,000)	(262,000)		478,000

#### Explanation of uncorrected misstatements

- 1 Under accrual of landfill aftercare provision – not adjusted as not material to the reader's understanding of the financial statements.
- 2 Capital expenditure was found which not capital in nature and the total actual error found in the representative sample was \$20,437. As the errors were found in a representative sample, the representative error was extrapolated to estimate the likely total error in the whole population. Extrapolated operating expense that was

estimated to be capitalised was \$216,000. As this was an extrapolated estimate of the error it was not adjusted.

**2.3 Corrected misstatements**

We also identified misstatements that were corrected by management. These corrected misstatements had the net effect of decreasing expenditure by \$341,657 and decreasing asset/liabilities by the same amount compared to the draft financial statements. The significant corrected misstatements are included below.

**2.4 Corrected disclosure deficiencies**

The disclosure changes identified during the audit that were subsequently amended.

**2.5 Corrected performance reporting misstatements**

The actual results for several non-financial performance measures were omitted from the draft annual report received for audit and were subsequently included.

There were also a few non-financial measures where results were incorrectly disclosed and these were subsequently corrected.

### 3 Quality and timeliness of information provided for audit



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

Although we received most of the information requested in our listing, the annual report was incomplete with several notes to the financial statements outstanding, variance explanations for both the main financials and funding impact statements needing to be updated; and the statement of service performance information had measures missing and some results were still to be updated.

These outstanding areas meant we were unable to complete our audit work and checks of disclosures during the scheduled audit timeframe and resulted in delays to the scheduled signing date.

We have noted some areas of improvement for the 2019 audit and these are detailed in 6.2 of this report. We have also identified other improvement areas in section 6 in relation to property, plant and equipment and revaluations, which will also improve the year end process.

It will be important for the District Council management to address these recommendations as the District Council elections are in 2019. It is expected that most councils will be wanting to adopt their accounts prior to the elections which will potentially create added resource constraints and any delays to the audit will likely impact any pre-election adoption dates.

We will engage in discussions with management early in the New Year to agree on areas of work that can be brought forward out of the August/September period.

## 4 Matters raised in the Audit Plan



In our Audit Plan of 2 August 2018, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
<b>Management override of Internal Controls</b>	
There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.	<p>Based on the work performed and controls in place, we assessed that the risk of material misstatement, due to management override, is sufficiently mitigated.</p> <p>Our work included:</p> <ul style="list-style-type: none"> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• Reviewing accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud;</li> <li>• Maintaining an awareness of any significant transactions that were outside the normal course of business, or that otherwise appear to be unusual given our understanding of the District Council and its environment, and other information obtained during the audit; and</li> <li>• Specifically reviewing potential sensitive expenditure areas.</li> </ul>

Audit risk/issue	Outcome
<b>Revaluation of operational and infrastructure assets</b>	
<p>The District Council periodically revalues its operational and infrastructural assets. PBE IPSAS 17, Property, Plant and Equipment, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The District Council undertook a revaluation of its infrastructure assets as at 1 July 2017 for the year ending 30 June 2018.</p>	<p>We reviewed the revaluation of the District Council's Infrastructure assets and ensured that the revaluation movements were correctly accounted for and supported.</p> <p>We obtained the District Council's explanations for variances between the latest and prior year's valuations and assessed them to be reasonable. We also tested the completeness of the underlying information and assessed it as reliable.</p> <p>As infrastructure assets were revalued as at 1 July 2017, we reviewed the District Council's assessment of whether there was a material variance between the carrying amount and the fair value of infrastructure assets at year-end. This assessment took into account price index changes for the different categories.</p> <p>We confirmed that the fair value of infrastructure assets were not materially different to the carrying value and, as such, there was no need for a further revaluation as at 30 June 2018.</p> <p>Overall we found the revaluations were carried out in accordance with PBE IPSAS 17, the Property, Plant and Equipment standard.</p> <p>Refer to section 6.4 for our detailed review and areas identified for improvement.</p>

## 5. Assessment of internal control



The District Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

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

In performing this assessment we consider both the "design effectiveness"<sup>1</sup> and "operational effectiveness"<sup>2</sup> 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.

In performing this assessment we have identified areas where we believe the control environment can be improved. These matters are discussed further below in this section.

### Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems. 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 Council and management. Both "design effective" and "operationally effective" internal controls are important to minimise the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the Councillors.

We identified the following areas for improvement:

<sup>1</sup> 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".

<sup>2</sup> Control has operated effectively throughout the period tested.



## 5.1 “Virtual” Credit card controls

### Recommendation

Implement processes and procedures to strengthen controls and access to the virtual credit card, including:

- Ensuring the use of the virtual credit card is in line with the District Council’s policy on the use of credit cards;
- Allowing only the card administrator to use the card with all approved transactions being processed by that staff member;
- Formal one-up approval for the expenditure to be incurred being provided to the card administrator prior to processing the transaction. This should be filed with supporting transaction documentation; and
- Implementing a monthly independent review and reconciliation of the expenditure on the credit card against the approvals and supporting documentation.

### Findings

We found that the District Council has a virtual credit card where any staff member within the District Council can obtain the details of this card from the card administrator and use it to pay for business expenditure. We were advised that the card is used infrequently and details are destroyed after every use of the card.

However, based on the credit card statements, the card is used relatively frequently and we found no record of who approved the expenditure that the card was used to pay for. We also found that supporting documentation for the expenditure incurred, was not initially available, and, when provided, it had been approved that day and not at the time the expenditure was incurred.

The current controls over the use of the virtual credit card are not robust and there is a risk that inappropriate expenditure could be incurred by the District Council. The recommendations detailed above should be implemented to strengthen control.

### Management Comment

*The virtual credit card is only available when this is the only payment option available and in line with Council policy.*

*There is a requirement to supply coded and authorised paperwork for each transaction.*

*The credit card is reconciled and processed on a monthly basis. The credit card statement is now available online which will enable closer monitoring of transactions.*

*Council will reinforce the control requirements around the use of this card:*

1. *Officers present a signed, coded, and authorised document outlining the total value.*
2. *Credit card details are released to the officer on a paper basis (not via email).  
Officers are ordered to destroy the card details by placing them in the document destruction bin immediately after use.*
3. *Once transaction is complete officer is to return the signed, coded and authorised invoice.*

## 5.2 Creditor Masterfile review controls

### Recommendation

- Review current processes to ensure there is adequate supporting information to verify that new creditors and changes are bona fide;
- Implement a regular review process to remove redundant creditors.

### Findings

During our review of the creditor masterfile controls, we noted the District Council accepted invoices as evidence to support creditors banking details. During the year, the District Council was informed by their bankers of possible fraud when a payment to a standing creditor, was made into a suspicious account. This was due to the interception of an emailed invoice where the bank account was subsequently changed. Although, after an investigation, it was determined there was no wrong doing on the part of the District Council, this incident does highlight the risk of possible fraud from changes to creditor masterfiles where there is not adequate supporting evidence.

We re-iterate our prior year recommendation that current processes be reviewed to ensure there is adequate supporting information and checks to verify that creditors and changes are bona fide. Recent high profile frauds have also highlighted the need for vigilance in setting up new creditors, making changes to creditor information and reviewing system creditors.

New creditors and changes to information should have adequate supporting information and appropriate checks should be made to ensure a creditor or change is bona fide. This could include checking websites and a company register check to verify the existence of a new creditor and phoning existing suppliers when notifications are received about changes to bank account details. The District Council should also consider only accepting bank deposit slips or letters from banks to support supplier's change in bank account details.

Creditors set up in the system should also be regularly reviewed so creditors not used, within a set period, are removed, to minimise the risk that these creditors are used to facilitate unauthorised payments.

#### Management Comment

*Council no longer accepts creditor bank account changes on invoices. Any bank account changes must be supported by either a deposit slip or certified copy of a bank statement.*

*All creditor masterfile changes are signed off on a monthly basis.*

*The creditor masterfile has been reviewed in the 2019 financial year and redundant and duplicate creditors have been removed. Ongoing reviews will take place yearly.*

### 5.3 Lack of segregation of duties in the expenditure process

#### Recommendation

- Review and enhance the purchase order controls, in the expenditure system, to require purchase orders to be approved on a one up basis; and
- require the managers, in charge of the relevant business unit, to review the report developed that highlights self-approved purchase orders/invoices, prior to the payment of these transactions.

#### Findings

In our 2016 report to the Council, and re-raised in our report to the Council in 2017, we noted the lack of segregation of duties in the expenditure system. The segregation of duties risk has increased with the changes to the purchase order approval system as all purchase orders now use the electronic purchase order system.

Under the electronic purchase order system, employees, who have delegated financial authority (DFA), can approve purchase orders as well as receipt the goods/services if the amount is at or below their DFA limits. The current controls, set up within the system, do not require any independent review or approval once a purchase order is approved in the system. Unlike in prior years, there is now no requirement for manager approval over the subsequent invoice.

Recommendations have been made in previous years to enhance the purchase order controls, in the expenditure system, to specifically require purchase orders to be approved on a one up basis. This would decrease the risk to the District Council by providing a mechanism to prevent inappropriate expenditure being incurred.

It would also help reduce inefficiencies in expenditure spending by providing a mechanism to ensure that approved suppliers were being used for expenditure purchases and the District Council could take advantage of trade discounts and bulk purchasing savings.

Management have indicated, in 2017, that there is no intention to implement a one-up approval approach in the electronic purchase order system. However, we understand that management is monitoring expenditure for efficiencies using the report developed over procurement. This is discussed further below.

We have also previously raised the option to develop a user friendly report that highlights self-approved purchase orders which could then be reviewed on a regular basis by a manager with a higher delegation. Preferably these transaction reviews would be completed prior to payment and by a manager in-charge of the relevant business unit. The disadvantage of this option is that the expenditure will have been incurred at that point.

We understood that management had developed a report as part of the procurement policy review to provide full access to all purchase orders raised, including those which are self-approved. We had recommended that this report be used by finance as part of the payment process, ensuring that the budget manager approves any self-approved purchase order and invoice, prior to payment, to mitigate the risks identified above. However, from our reviews, as part of our interim audit, this review is not occurring.

We continue to recommend that management enable the one-up approval process in the electronic purchase order system and to incorporate the use of this report as part of the finance monthly controls.

#### **Management Comment**

*Council has determined that the functionality to approve purchase orders on a one up basis exists within the current financial system. A project team has been formed to implement this functionality and a project plan is being currently being prepared that will include a timeframe for implementation.*

*An implementation workshop has been arranged for early March 2019, with functionality to be in place by 30 June 2019.*

#### **5.4 Quotable Value to Rating Information Database reconciliation**

##### **Recommendation**

Retain evidence of the independent review of the annual reconciliation between Quotable Value (QV) and the Rating Information Database (RID).

##### **Findings**

During our review of the rating process, we found there was no evidence of an independent review of the end of year reconciliation. As the District Council's key operational funding is based on the rates revenue which is calculated on the information held in the RID, the annual reconciliation of the RID to QV is a key control in ensuring that the rates are set on valid and accurate data. Formalising the review process will ensure that there is adequate review over this key the District Council function and provide assurance that the rating information is accurate.

**Management Comment**

*There may have been no “evidence” in the form of a signature on the bottom of a spreadsheet, however, the reconciliation did occur. Starting 1 July 2019, the reconciliation will be independently reviewed and signed off on a quarterly basis by the Finance Manager.*

## 6 Other Matters identified during the audit



In this section we outline the significant issues we have identified through the audit work we have performed.

### 6.1 Sale of the Pensioner Housing

The pensioner houses that were transferred to properties held for sale in the previous year, were sold during the current financial year.

We reviewed the sale transaction and confirmed that the accounting treatment was correct and accurate.

### 6.2 Annual reporting process

#### Recommendation

Implement audit recommendations to improve the audit process including improving the quality assurance review over the annual report.

#### Findings

In our 2017 report to the Council, we made recommendations for the District Council to implement review procedures to improve the audit process and to ensure agreed timelines could be met. As noted in section 3, we found that the annual report provided for audit was incomplete, some notes, balances and disclosures were not complete or did not reconcile to the financial statements/supporting information.

In addition, earlier in the year, audit time was scheduled to review infrastructure revaluations. However, as valuations, including the District Council review and review by the peer reviewer, were not complete by the scheduled time, this work had to be delayed.

We have noted some areas of improvement for the 2019 audit and the particular areas we would expect to see improving are:

- implementing a quality assurance review over the annual report before providing to audit, performed by a staff member not directly involved in collating the information. This should include a check that notes agree to the face of the accounts, disclosures, variance explanations and statement of service performance information are complete;
- ensuring that a complete annual report is provided at the start of the final audit. When draft annual reports are not complete this has a flow on impact to

timeliness of reviews which could result in late changes, and results in additional audit time to check and review the changes;

- improving the revaluation process and timetable so information is available by the agreed time to enable audit work to be completed earlier in the audit schedule;
- providing fair value assessments, for revalued assets in a non-revaluation year, before the final audit commences; and
- ensuring that there is supporting information for annual report balances and statement of service information that agrees to the information reported in the annual report.

We will liaise with the District Council Finance team to improve this process for the 30 June 2019 audit and identify, where it is practical, to bring work forward to reduce the level of work required in the final audit time frame. We also note that recommendations 6.4 to 6.7, include improvements in these areas that will also assist with the year-end audit.

#### **Management Comment**

*Management will build into the project plan a full quality assurance process. The note disclosures agreed to the face of the accounts in all cases except Property Plant and Equipment.*

### **6.3 Funding agreements with third parties**

#### **Recommendation**

Formalise agreements, between external parties, prior to entering into any future financial transactions where third parties will be sharing costs with the District Council.

Formalise agreements with the partners in Te Awahou Nieuwe Stroom project on the partner's share of the fit-out costs for the Project.

#### **Findings**

During the audit we found that there were no formal signed agreements to support \$615,135 of accounts receivable which the District Council had recognised as Te Awahou Nieuwe Stroom project fit-out costs to be paid by the District Council's partners in the project.

The Dutch Connection Trust and Te Taitoa Maori o Te Awahou, were partners with the District Council in the Te Awahou Nieuwe Stroom community project and were involved in the fit-out of their designated areas in the building. However, some of these costs were incurred by the District Council on the understanding that the partners would reimburse the District Council for their shares of these costs.

During the audit, the District Council could not provide any supporting documentation, or signed contracts to corroborate that amounts recognised, as costs to be reimbursed, were



in fact owed by the partners in the project. Without any formal evidence of the existence and valuation of the amounts owed, the receivable recognised was reversed and the related fixed assets were recognised by the District Council. Refer to 2.3 for the correction made.

We understand that the District Council management is in the process of obtaining the signed agreements for the amounts the District Council believes the partners should be reimbursing. Agreements, signed by all parties, confirming the amounts owed to the District Council and setting-out the terms of the monies spent on behalf of the District Council's partners on Te Awahou Nieuwe Stroom should be put in place as soon as possible. There is a risk, with such partnerships where there is a lack of formal agreements that the funding party, in this case the District Council will have to bear all the costs. This would mean the cost to the District Council, for the Te Awahou Nieuwe Stroom community project, would be \$615,135 higher.

Best practice would be for all such future relationships to be formally documented with all any funding terms, conditions and repayments formally agreed prior to the District Council incurring costs on behalf of third parties.

#### **Management Comment**

*A policy where third parties will be sharing costs with the district Council will be developed in 2019.*

*Formal agreements with the partners in Te Awahou Nieuwe Stroom, on the partner's share of fit out costs will be finalised by 31 March 2019.*

## **6.4 Property, plant and equipment**

### **6.4.1 Revaluation of Infrastructure assets**

#### **Recommendation**

Improve the revaluation of assets by:

- Updating asset condition information and reviewing the reasonableness of asset useful lives;
- Benchmarking revaluation unit rates against the latest infrastructure contract prices in assessing the assets revalued unit rates;
- Performing valuations based on first principles where actual contracts, materials and labour costs are used as a basis for the valuation on a 2-3 year cycle;
- Reviewing the assumptions used in the revaluation of the treatment plants; and reviewing and simplifying revaluation templates;



- Performing a fair value assessment for the wastewater and water land and buildings in the years between the full land and building valuation to determine whether an adjustment is required;
- Developing a formal timeline and schedule for the annual infrastructure valuation process; and
- Considering whether there is value in performing revaluations on a yearly basis, or whether a longer interval between valuations would be appropriate.

### Findings

We noted that most recommendations, in our prior year report to the Council, for valuations are still outstanding (refer to Appendix 1). We also identified further improvement areas as part of our review of the 1 July 2017 infrastructure asset valuation. The following areas, of the infrastructure valuation process, could be improved:

- Reassessment of useful lives and condition. As part of the revaluation of infrastructure assets, the useful lives of some of the roading assets were reassessed and adjusted based on recent spending patterns and asset condition. However, no condition/ remaining useful assessment was performed on the three water reticulation and treatment plant assets. As the District Council is performing ongoing condition assessments on the underground assets, an update and impact of these assessments should be built into the annual valuation process.

The risk is that if there is a significant variance in asset condition, or to the assumptions used in the valuations that the District Council's assets, the assets will be significantly over/under valued and the appropriate level of depreciation not charged. While we were satisfied, based on the peer reviewer's review and our audit review over the three water activities, that there was no indication that assets are not performing at the level expected, we expect the District Council to perform its own formal assessment as required by the accounting standards.

- In performing the revaluations, the District Council used inflation rates, obtained from Statistics New Zealand, to determine the replacement cost for the infrastructure assets. While this is generally acceptable if there has been recent valuations where the District Council has valued using first principles i.e. valuations based on actual recent contract prices, labour and material prices, taking this approach at every valuation can lead to over/under valued assets and the associated depreciation.
- Even when inflation only is applied there should be some benchmarking to current contracts prices being charged by the District Councils' contractors in current capital projects to confirm that there is not a significant variance to the District Council's assumptions. The current templates, being used for the revaluation of the water and wastewater treatment plants, are complicated and not user friendly. Some of the assumptions also did not seem reasonable with a 15% management fee added which had also been included in the prior year base

figures. It was also not clear that replacement assets were being appropriately adjusted for.

While our recalculation did not highlight significant differences, we recommend that the current templates be reviewed.

- The water and wastewater treatment plant buildings, included in the respective asset classes, are revalued as part of the land and building valuation and are not being revalued annually in line with the valuation cycle of infrastructure assets. As part of the valuation process, a formal check should be performed, with the District Council's land and building valuer, that there has not been a material movement in the years when there has not been a revaluation for those assets.
- The infrastructure revaluations are being performed on an annual basis. However as noted in 6.2 there are delays being experienced in completion and review over the valuation process. Developing a formal timeline and schedule, for the completion and review of the annual valuations, would help ensure that this work is completed and reviewed by both the District Council and Audit New Zealand prior to the yearend audit.
- A significant amount time and cost goes into the preparation of the infrastructure valuations, in terms of the District Council staff time, third party review costs and additional audit time and costs. We recommend that the District Council consider whether there is value in revaluing each year, or whether it would be better to have a longer period of time between valuations (as long as the fair value of the asset is not materially different to the carrying value). Alternatively, the District Council may wish to revalue one asset class per year rather than all classes each year.

#### Management Comment

*HDC is looking into resourcing to be able to do this level of revaluation.*

*Treatment plant revaluations have been simplified.*

#### 6.4.2 Updating of Roading Asset management system (RAMM)

##### Recommendation

- Update the RAMM database on a regular basis with any changes to the asset data, including updated unit rates;
- Perform future revaluations in RAMM.

### Findings

During the audit of the roading revaluation, we noted that the roading revaluation was performed outside of RAMM using Excel, and unit rates in RAMM were last updated in 2012. RAMM is the roading asset management system and it contains a revaluation model.

Performing and updating the asset data outside of RAMM, raises the risk that asset information, on which the valuation was based including current condition information, is incomplete or inaccurate and the asset valuation does not reflect the actual value of the roading assets.

As part of our review, we performed additional testing to confirm that the asset data was valid and noted one component was included in the asset valuation information which was not included in RAMM. While this was not significant to the overall valuation and is being followed up by management, it highlights the risk of managing asset data in two systems.

### Management Comment

*Contractors provide updates to RAMM which are then checked by the Roading Officer.*

*From 30 June 2019, future revaluations will be performed in RAMM.*

#### 6.4.3 Assets reconciliations

### Recommendation

- Perform a monthly reconciliation between the fixed assets register (FAR) and the general ledger;
- Capitalise operational assets on monthly basis.

### Findings

During the final audit, delays were caused to the audit process as the District Council management had difficulty in reconciling the operational assets in the fixed assets note.

There was subsequently difficulty in agreeing the detailed transactions to the additions in the financial statements and several variances were identified between the FAR and the general ledger (GL).

We had raised in the 2017 audit, that management should be capitalising operational assets on a regular basis, during the year, and performing regular fixed asset reconciliations. Not reconciling the fixed asset ledger to the GL on a regular basis can lead to discrepancies in asset data information which is harder to identify and correct when there are a number of reconciling items and the original transactions occurred in earlier periods. The delays experienced during this year's audits highlight the risks and issues that can occur when this does not occur and there is not sufficient time at year end to rectify the issues.

**Management Comment**

*There isn't the resourcing to do monthly reconciliations or capitalisation but quarterly should be possible. Currently investigating best process to do the reconciliations.*

**6.5 Performance Management Information**

**6.5.1 Review of reported performance measurement information**

**Recommendation**

Implement review procedures over the non-financial performance measures to ensure the information reported is accurate and complete.

**Findings**

We noted that there is no review/quality assurance process over any of the performance measure, including the mandatory Customer Request Management (CRM) measure, before being reported on.

The staff member, previously in charge of this area, is now in a new role and no one has taken over responsibility for this function. It is important that a final reasonableness check is performed, to ensure that reported performance is accurate.

We noted several misstatements to the performance information reported in the Draft Annual Report that had to be corrected. This could have been prevented had an adequate review been performed over the data being reported.

**Management Comment**

*Council has formed a group that will oversee all processes around performance reporting. The processes themselves have been process mapped in our Promapp tool. A quality assurance process has been implemented and will be trailed for the March 2019 Quarterly report.*

**6.5.2 Prior Year Performance Management Recommendations**

In 2016 we made several recommendations in relation to the District Council's Performance Measure process. Although we have noticed some improvement, we encourage the District Council to focus on these areas and to consistently implement our recommendations and monitor the performance measurement process, to ensure continuous improvement on the current system. Our outstanding recommendations include:

- Reviewing the effectiveness of the current reporting and systems to accurately capture the underlying data and to ensure the data is complete. Systems and processes should be formally documented and regular training provided to all staff involved;

- Performing a regular, weekly or even daily, quality review of data entered into the Customer Request Management system (CRM) for complaints, service requests and response times to ensure it is complete, accurate and supportable. Reviews should also focus on following up unclosed jobs, ensuring all data fields are updated, and review of unusual response times. We would expect that these reviews are formally evidenced by way of a date and signature;
- Ensuring data fields include information to clearly show why data has been amended or re-categorised with a clear audit trail of any changes made and who authorised them;
- Documenting any calls that are excluded as Department of Internal Affairs (DIA) service requests or complaints. This may require additional fields to be added to the existing CRM if this information is not already captured;
- Continuing to review DIA guidance to ensure that the data being captured and reported, meets the mandatory reporting requirements. We expect that there will be further clarification around these measures as they become embedded into the annual reporting;
- Establishing a system to check contractor times recorded, are accurate instead of relying solely on the time that the contractor/staff noted. This is important to ensure accurate monitoring of contractor performance against the District Council's key performance targets; and
- Using the data from the CRM to monitor the District Council's performance, on a regular basis, to ensure corrective action can be taken as needed.

#### **Management Comment**

*There has been an ongoing change in the reporting capability. This has resulted in vast improvements in a number of areas relating to both data quality and completeness. Especially in the areas of CRM reporting and building regulatory reporting.*

#### **Contractor Management**

*The majority of the Alliance team record information when they visit site. They record, people on site, equipment on site and what was discussed. The usual practice is to request a schedule from the contractor before the works commence and then use the site notes to track whether the contractor is providing the people and equipment proposed. This prevents the contractor claiming additional costs for delays at a later date; as HDC has a basis to argue the delays are due to the contractor not providing the people and equipment they committed to.*

*The Alliance Planning Team are meeting early March to discuss how to formalise this so that all parties are following the same process and the information is recorded somewhere central so others can see it.*

## **6.6 Approval of the Chief Executive's Expenditure**

### **Recommendation**

Require expenditure, incurred by the Chief Executive, to be approved on a one up basis, either by the Mayor (or his delegate) or the Chair of the Audit and Risk Committee.

### **Findings**

We noted that some of the Chief Executive's credit card expenditure transactions were approved by General Managers. These included payments to consultants for coaching and training for the Chief Executive and the Senior Leadership Team.

Best practice is for the Chief Executive's credit card expenditure to be approved, on a one-up basis, usually by the Mayor (or his delegate) or the Chair of the Finance, Audit and Risk Sub-committee.

### **Management Comment**

*From 18 February 2019 Chief Executive's credit card expenditure will approved by the Chair of the Chief Executive Relationship Committee.*

## 7 Public sector audit



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

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

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

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

As part of the 2018 audit of the District Council we have reviewed significant expenditure and revenue, capital expenditure and performed reviews over sensitive expenditure transactions. Other than the items raised earlier this report, there were no other issues identified.



## 8 Useful publications



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

Description	Where to find it
<b>Client updates</b>	
<p>In March 2018, we hosted a series of client updates. The theme was “Our high performing and accountable public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations. These included speakers from both Audit New Zealand and external organisations.</p> <p>Relevant sessions for the District Council include:</p> <ul style="list-style-type: none"> <li>• Procurement in the public sector</li> <li>• Procurement functional leadership</li> <li>• Procurement and contract management</li> <li>• Conflicts of interest in the public sector</li> <li>• Annual reporting and stakeholder expectations</li> <li>• Accounting technical update</li> </ul>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client updates</a></p>
<b>Model financial statements</b>	
<p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> <li>• significant accounting policies are alongside the notes to which they relate;</li> <li>• simplifying accounting policy language;</li> <li>• enhancing estimates and judgement disclosures; and</li> <li>• including colour, contents pages and subheadings to assist the reader in navigating the financial statements.</li> </ul>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Model Financial Statements</a></p>



Description	Where to find it
<b>Tax matters</b>	
As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.	On our website under publications and resources. Link: <a href="#">Tax Matters</a>
<b>Data in the public sector</b>	
The Office of the Auditor-General (OAG) has published a series of articles about how data is being used in the public sector. These cover: <ul style="list-style-type: none"> <li>• functional leadership;</li> <li>• building capability and capacity;</li> <li>• collaboration; and</li> <li>• security.</li> </ul>	On the OAG's website under publications. Link: <a href="#">Data in the public sector</a>
<b>Matters arising from the 2016/17 audits</b>	
The OAG has published a report on the results of the 2016/17 audits for the sector.	On the OAG's website under publications. Link: <a href="#">Recent publications</a>
<b>Audit Committees</b>	
The OAG has released various best practice information on Audit Committees.	On the OAG's website under "Our Work – Audit Committee Resources" Link: <a href="#">Audit Committee Resources</a>
<b>Infrastructure as a Service</b>	
The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved.	On the OAG's website under publications. Link: <a href="#">Infrastructure as a Service</a>

## Appendix 1: Status of previous recommendations

### Open recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<p><b>Segregation of duties in expenditure process</b></p> <p>Review and enhance the purchase order controls in the expenditure system to require purchases orders to be approved on a one up basis.</p> <p>Develop a user friendly report that highlights self-approved purchase orders/invoices to allow for a specific review of these transactions prior to payment.</p>	2016	<p><b>Open</b></p> <p><i>A report can be run to indicate which PO's have been raised and approved by the same person and this could be investigated on sample basis.</i></p> <p><i>However, our testing found that the control is not performed as part of the standard operating procedures for the creditors' payment review process. Refer also to 5.3.</i></p>
<p><b>Project management improvements</b></p> <p>Formalise the methodology for managing projects and ensure there is a planned approach to post implementation review in place.</p>	2016	<p><b>In Progress</b></p> <p><i>A project management policy has been drafted and is due to be adopted before Christmas.</i></p>
<p><b>Procurement Strategy and Policy</b></p> <p>Align the current Procurement Strategy and Policy with best practice, with a view to having an integrated policy that can be used by the entire organisation.</p>	2016	<p><b>In Progress</b></p> <p><i>We understand that Procurement Policy 2.0 has been reviewed. We will review the updated policy at our next audit visit.</i></p>
<p><b>Conflicts of interest policy</b></p> <p>Review and update the Conflicts of Interest policy to reflect best practice in the sector including:</p> <p>Policy to be reviewed and endorsed by the Executive Management Team; and</p> <p>The policy include a clearer mechanism on how breaches are handled or on what the consequences are for non-compliance.</p>	2016	<p><b>Open</b></p> <p><i>No progress.</i></p>

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Legislative compliance</b>  The District Council to look at mechanisms to actively monitor compliance with legislative requirements.	2016	<b>In Progress</b>  <i>Some progress have been made since our last report.</i>  <i>The District Council is recruiting for an in-house legal advisor and setting up a formal process will be part of this.</i>
<b>Contract management</b>  Retain all contract information and ensure it is appropriately filed and archived to enable monitoring of key KPIs and contract conditions. All contracts should be appropriately approved and payments approved in line with delegated authority.	2016	<b>In Progress</b>  <i>Some progress has been made since our last report.</i>  <i>We will review against best practices in our next audit.</i>
<b>Maintenance of fixed assets WIP schedule/depreciation</b>  Monitor WIP balances on a regular basis to ensure that any WIP that should be capitalised, is done so in a timely manner. All significant capital additions be depreciated when the asset becomes available for use.  As depreciation is only calculated at year end, the District Council should review larger additions to check if depreciation should be recognised earlier.	2016	<b>Open</b>  <i>We will continue to monitor the issue and managements progress to implement our recommendation.</i>
<b>Maintenance of fixed asset register (FAR)</b>  Perform a full review of the FAR to ensure valid data is contained in the module. Review accounting policies to ensure depreciation rates are appropriate and detailed enough for assets which are commonly added to the schedule.  Implement regular reconciliations between the Asset Management Systems, maintained by the asset managers, and the FAR, maintained by the finance team. The reconciliations should be reviewed by an independent person evidenced with a dated signature.	2016	<b>Open</b>  <i>As reported in 6.4.1, several issues were noted with the capitalisation and maintenance of the FAR and lack of Fixed Asset reconciliations being performed.</i>

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Policy on deposits and bonds</b> Adopt a policy on deposits and bonds and review deposits and bonds held to determine whether those no longer required should be refunded or recognised as revenue.	2016	<b>In Progress</b> <i>Still to be completed although further review of outstanding deposits was undertaken in the current year.</i>
<b>Performance measure rules</b> Continue to review the effectiveness of the collection and reporting of data.	2016	<b>In Progress</b> <i>As reported in 6.5, we noted there was no QA over the information submitted and disclosed in the Annual Report.</i>
<b>Mobile/PDA policy</b> The Mobile/PDA policy be reviewed in line with OAG guidelines.	2016	<b>In Progress</b> <i>We understand that this has been completed since our audit. We will review the updated policy as part of our 2018/2019 audit.</i>
<b>Procurement review</b> Implement the improvements identified from the procurement reviews in 2016 and include any policy improvements in the 2017 procurement policy update.	2016	<b>In Progress</b> <i>We understand that this has been completed since our audit. We will review the updated policy as part of our 2018/2019 audit.</i>
<b>Evidence on NZTA claim review</b> The reviewer signs and dates the documentation as evidence of their review.	2017	<b>In Progress</b> <i>During our review, no evidence could be obtained that the NZTA claim has been independently reviewed. Management has indicated that going forward the claim will be signed as proof the claim has been reviewed.</i>

Recommendation	First raised	Status
<b>Necessary</b>		
<p><b>Review of Land and Buildings Fixed Asset Register</b></p> <p>Review the listing of land and buildings to be valued before submitting the information to the valuers to ensure that all assets owned by the District Council are revalued and that only District Council owned assets are valued.</p>	2017	<p><b>Open</b></p> <p><i>There has been no land and building revaluation in 2018. Infrastructure land and buildings were not included in the 1 July 2017 infrastructure valuation.</i></p> <p><i>Refer also to 6.4</i></p>

Recommendation	First raised	Status
<b>Necessary</b>		
<p><b>Revaluation of property, plant and equipment</b></p> <p>Ensure there is a clear reconciliation between the revalued assets back to the valuation information.</p> <p>Develop a clear process to document adjustments to the valuation information and reassess the useful lives of infrastructure assets on a regular basis to ensure lives are in line with asset condition.</p>	2017	<p><b>Open</b></p> <p><i>We have noted similar issues with the 1 July 2017 infrastructure valuation.</i></p> <p><i>Refer to findings in 6.4.</i></p>
<p><b>Creditor master file</b></p> <p>Review current processes to ensure there is adequate supporting information to verify that new creditors, and changes are bona fide; and implement a regular review process to remove redundant creditors.</p>	2017	<p><b>Open</b></p> <p><i>We have identified further issues arising to the robustness of the creditor Masterfile process. Ref to 5.2.</i></p>

Closed recommendations

Implemented or closed Recommendation	First raised	Status
<b>Creditor master file – Independent Review</b> Reinstate the monthly review of the creditor master file evidenced by way of a signature and date prior to each creditor payment run.	2016	<b>Closed- Implemented</b> <i>We are satisfied that there is now a monthly independent review of the creditor's Masterfile.</i>
<b>Valuation of property, plant and equipment</b> <ul style="list-style-type: none"> <li>Ensure quality assurance review is carried out to future in-house revaluations; and</li> <li>Query assumptions in house or external valuers</li> </ul>	2016	<b>Closed- Implemented</b> <i>Although several recommendations have been made in this report relating to the revaluation of PPE (refer to 6.4), these previous years recommendations have been implemented.</i> <i>The District Council obtained the services of an independent expert who reviewed the District Council's valuations. We reviewed the communication between the District Council and the valuer where the valuer queried some assumptions used by the District Council. We noted the responses and that the valuer was satisfied they had addressed the issues raised.</i>
<b>Collectability of rates debtors</b> Implement a robust process to identify and monitor rates which are no longer legally collectable under the Local Government (Rating) Act 2002, and write them off.	2016	<b>Closed</b> <i>Appropriate process and approval of rates no longer legally collectable.</i>
<b>Reporting of unplanned and deferred maintenance</b> Report planned, unplanned and deferred maintenance on a regular basis to the District Council to allow monitoring and action as required.	2016	<b>Closed - The District Council accepts the risk.</b> <b>Management Comment</b> <i>As all planned and unplanned maintenance is done when the need arises we do not consider there is any unplanned or deferred maintenance.</i> <i>Unplanned maintenance is budgeted for. All maintenance issues are used to inform the</i>

Implemented or closed Recommendation	First raised	Status
		<i>review of the various relevant Asset management Plans.</i>



## Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the District Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the District Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audit, we have no relationship with, or interests in, the District Council.</p>
Fees	<p>The audit fee for the year is \$150,479, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$4,250 for the audit of the District Council's Debenture Trust and \$87,000 related to the audit of the Long Term Plan.</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>



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# Council's Options for Insuring Below-ground Infrastructural Assets

File No.: 19/76

## 1. Purpose

To evaluate the options for insuring Council's infrastructural assets for damage relating to a natural disaster.

## 2. Executive Summary

Horowhenua District Council is a member of the Local Authority Protection Programme (LAPP) Fund to protect \$270m underground 3 waters assets from disasters like the Christchurch and Kaikoura earthquakes. It is set up as a charitable trust whereby members contribute to a fund that, along with reinsurance cover, will pay for the re-establishment of assets following a major event. The issue has been, since the Christchurch event, that the fund has faced financial pressure and competition from the private insurance market. LAPP has reorganised its position to cease to be a mutual fund and rely on the world-wide insurance market to cover members below ground infrastructural assets.

## 3. Recommendation

- 3.1 That Report 19/76 Council's Options for Insuring Below-ground Infrastructural Assets be received.
- 3.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.
- 3.3 That the Finance, Audit & Risk Subcommittee recommends to the Horowhenua District Council (HDC) that HDC remains a member of LAPP using the new Insurance product while retaining HDC's share of the \$16m LAPP fund that may be used to cover the costs of Insurance Valuations and Risk Profiling if this becomes necessary.

## 4. Background/Previous Council Decision

- 4.1 LAPP was set up in 1993 by most of the 70 odd local government entities at the time, to establish a fund for the reinstatement of loss or damage of, what was at the time, generally uninsurable local government infrastructural assets.
- 4.2 As at 30 June 2018 the Trust had 22 members (down from 32 in 2016). The membership is mainly rural and provincial councils but including the likes of Invercargill City, Palmerston North City, Hastings District, New Plymouth District, amongst others. While the membership in LAPP may have reduced, members cannot take their share of the fund with them
- 4.3 From July 1993 to June 2018, LAPP collected \$107m in member contributions and paid out \$225m in claims.
- 4.4 When LAPP was set up, underground assets were 'generally uninsurable'. That is no longer the case. This and other changes mean it was timely to review LAPP's goals.

- 4.5 As part of this, LAPP has signed an agreement to work with Aon New Zealand (New Zealand's largest insurance broker) to re-consider how best to address the sector's risk-financing needs for its underground assets.
- 4.6 From 1 November 2019 LAPP will be moving to an improved product for its members and has appointed Aon New Zealand as its broker.
- 4.7 For the transition period from 1 July 2019 to 1 November 2019, members will be invited to renew their existing cover on a pro rata basis. The contribution for this period will be one-third of their 2018-19 contribution, in HDC's case \$48k.

## 5. Discussion

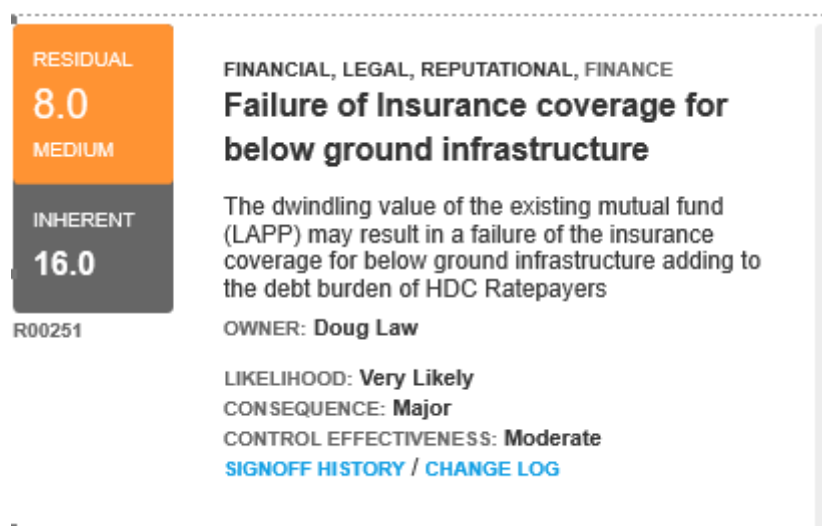
- 5.1 The former National Government via Treasury had signalled the establishment of a Local Government Risk Management Agency and that the 60/40 split (whereby the government covered 60% of any loss) is under review. The Government's intent was to only cover catastrophic events with lessor event to be covered 100% by local government Insurance. However, the decision to move in this direction seems to have stalled and may/or may not be picked up by the new government.
- 5.2 Although Central Government has put the establishment of a Risk Agency on hold LGNZ's view is that it has highlighted the need for the agency. AON insurance brokers have been employed by the Trustees of LAPP to look at the future mode of operating.
- 5.3 The Christchurch earthquake revealed an issue of using accounting valuations for insurance purposes. Accounting valuations value the replacement costs of the asset in normal business as usual, controlled contractual conditions. If a catastrophic event occurs the costs of replacement go up to attract the resource to effect repairs and reinstatement of the assets in short order. Thus, valuations for insurance purposes need to be done using a completely different methodology. This costs money.
- 5.4 Insurance is based on risk profiling by location. Looking at the situation of assets in a smart way to reduce risk. Such risk analysis/profiling will most likely occur in a regional/local context where different regions of the country will have different inherent risk profiles. Again this risk profiling will cost money and may become mandatory if the Government pursues the concept outlined within the proposal for a Risk Agency.
- 5.5 Recently AON visited Council to look at how we valued our 3 waters assets. They will use this information to assess whether our methodology is sufficient to cover the enhanced risk of under valuation that occurred in the Christchurch event.
- 5.5 Attached is a letter from the LAPP Trustees updating members on the new situation and way forward. LAPP has moved away from its current mutual fund format and moved to an Insurance product called "Agreed Cover" using "Risk Protection wording".
- 5.6 It is envisaged that Councils share of the \$16m LAPP fund will be used to pay for the valuation and Risk Profiling that could be needed in the medium term. It will also serve to cover the first \$16m of any loss so reducing the risk to insurers and therefore, lowering premiums. However, this advantage may be reduced or extinguished by any future disaster.
- 5.7 Also, because LAPP members are not geographically adjacent, in the most part, it also reduces the risk to insurers of a major loss in any local event. This again will reduce premium costs below what would be achieved through the MW LASS buying group, for the same insurance product.
- 5.8 LAPP in 2017 moved from being able to cover two major events per year to three at limits of \$120 million, \$90 million and \$50 million (at 100%).

- 5.9 For 2018-19, cover for up to three major events has been retained with the limits increased to \$140m, \$100m and \$60m (at 100%)
- 5.10 These covers can be used in any order. For example, if a flood were to occur, the \$60 million cover could be used, leaving two other covers for up to \$100 million and \$140 million should they be required.
- 5.11 This configuration has also meant an increase in total cover (at 100%) for members from up to \$260 million to up to \$300 million.

## 6 Options

- 6.1 Option 1 is to remain in LAPP in its new format of offering an insurance product and moving from the mutual fund concept.
- 6.2 Option 2 is to withdraw from LAPP and use the MW LASS Insurance product.

### 4.21 Risk assessment



## Attachments



No.	Title	Page
A	LAPP update 1 March 2019	71

### Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

## Signatories

Author(s)	Doug Law <b>Chief Financial Officer</b>	
Approved by	David Clapperton <b>Chief Executive</b>	



Abraham Chamberlain  
Horowhenua District Council

1 March 2019

Dear Abraham

**Improvements to LAPP from 1 November 2019**

Following on from our recent phone call whereby I informed you that LAPP is improving its product from 1 November 2019. As discussed this is to confirm LAPP and Aon New Zealand (Aon) will be holding a LAPP presentation meeting at 9am on 12 March 2019 at the Palmerston North City Council offices and are delighted that you will be able to attend this meeting. We will cover:

- From 1 November, LAPP will be moving to an improved product for its members.
- To access the reinsurance it needs for this new product, LAPP has appointed Aon New Zealand (Aon) as its broker. This is a slight but significant change as LAPP's broker since 1994 has been Aon Benfield. An advantage to LAPP's members of this new arrangement is that they can access direct support from Aon as LAPP's broker should they wish for this.
- For the transition period from 1 July 2019 to 1 November 2019, Horowhenua District Council may continue their existing cover for a contribution of \$48,018.33 inclusive of GST, being one-third of your 2018-19 contribution. Any new assets added to your underground infrastructure since 1 July 2018 will be automatically covered.

As previously advised, LAPP's new product from 1 November 2019, called Agreed Cover, will use a Risk Protection Wording, which is akin to having an insurance policy. The Agreed Cover product offers members:

- Certainty as to which assets are covered and how much they are covered for
- A choice as to how much overall cover is purchased
- A lower long-term cost

Agreed Cover (and nowadays any property insurance cover) requires accurate asset replacement valuations and Aon has extensive expertise to help you with this. LAPP will also be encouraging its members to think about what assets they would want to have following a major event as opposed to simply repairing or replacing what is there. Agreed Cover then lets you insure for this. We will take you through the Risk Protection Wording that LAPP will adopt from 1 November 2019 and explain how best you can improve your asset data.

We value your membership. The LAPP disaster fund currently stands at \$16m, and this money can only be used for the purposes described in LAPP's trust deed. Across the membership the \$16m equates to six years' worth of contributions – and that is after reserving for the 2016 Kaikoura earthquake claims that affected three of LAPP's members.

Yours sincerely

Ian Brown  
Chief Executive, Civic Financial Services, LAPP Administration Manager

A handwritten signature in blue ink, appearing to read 'Ian Brown', is written over the typed name and title.

**New Zealand Local Authority Protection Programme Disaster Fund**

114 Lambton Quay • PO Box 5521, Wellington 6145 • Telephone 64 4 978 1250 • Facsimile 64 4 978 1260





# Remit to Local Government New Zealand

File No.: 19/85

## 1. Purpose

For Councillors to consider whether or not to support a remit to Local Government New Zealand (LGNZ) to request LGNZ to lobby Central Government to provide tax relief to building owners for the compulsory earthquake strengthening of their buildings.

## 2. Recommendation

- 2.1 That Report 19/85 on Remit to Local Government New Zealand be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.
- 2.3 That the Finance, Audit and Risk Committee **recommends/does not recommend** that Council pursue a remit to Local Government New Zealand (LGNZ) to request LGNZ to lobby Central Government to provide tax relief to building owners for the compulsory earthquake strengthening of their buildings.

## 3. Background/Previous Council Decisions

- 3.1 As required by the Building (Earthquake-prone Buildings) Amendment Act 2016, Council has recently considered and made a decision with regard to Priority Areas/Buildings for the Horowhenua, with the following resolution passed:

*THAT Horowhenua District Council adopts the extended area in Levin as a priority area, thus making all buildings in the identified Levin area priority buildings, with Shannon and Foxton to have no priority areas.*

- 3.2 There could be cost implications from the change in legislation for a number of building owners in the district.
- 3.3 With that in mind, Ms Metcalf, Deputy Chair of the Foxton Community Board, submitted the following Notice of Motion to the 25 March FCB meeting:

*“That the Foxton Community Board asks the Councillors of the Horowhenua District Council to request Local Government New Zealand to lobby the Inland Revenue to provide tax relief to building owners for the compulsory earthquake strengthening of their buildings either by way of reinstating depreciation or some other tax relief for earthquake compliance costs.”*

- 3.4 Ms Metcalf's rationale for the NoM being:
  - At present depreciation for buildings is rated at zero %, i.e. no tax claim is allowed for depreciation;
  - Earthquake strengthening is capital expenditure in nature and not claimable as repairs and maintenance;
  - Repairs and maintenance, even if significant, is allowed for fixing like with like. Earthquake strengthening is an improvement on what was there before and has to be capitalised;
  - The thousands of dollars spent on getting a building up to the required earthquake standard is a black whole:

- A building with a \$180,000 fix up is not adding value to the building from the pre-earthquake standards
- But it certainly will drop the value for a prospective new buyer.
- To say buildings appreciate and do not depreciate is not true for commercial buildings that are required to comply with earthquake standards.

#### 4. Issues for Consideration

**Attached** to this report is Local Government New Zealand's Remit Policy. If this NoM is supported by the Foxton Community Board and Council also supports the intent, the next step will be to seek support from other Councils as per point No. 3 in LGNZ's Remit Policy. So Council does not have to approach five other Councils individually, the next opportunity to seek that support will be at the Zone 3 meeting to be held on 4 & 5 April 2019.

The Community Board had not considered the NoM at the time of writing this report. Given there is no Council meeting scheduled prior to the Zone 3 meeting and assuming support by the FCB, it is included in this FARS Agenda (with FARS being a committee of full Council) for consideration.

#### Attachments

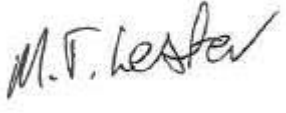
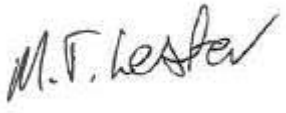
No.	Title	Page
A	LGNZ Remit Policy	75

#### Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

#### Signatories

Author(s)	Mark Lester <b>Group Manager - Corporate Services</b>	
Approved by	Mark Lester <b>Group Manager - Corporate Services</b>	



## LOCAL GOVERNMENT NEW ZEALAND REMIT POLICY

The criteria for considering remits were reviewed in March 1999 and National Council adopted the following Remits Screening Policy:

1. Remits must be relevant to local government as a whole rather than exclusively relevant to a single zone or sector group (or an individual council.)
2. Remits should be of a major policy nature (constitutional and substantive policy) rather than matters that can be dealt with by administrative action.
3. Remits must have formal support from at least one zone or sector group meeting, or five Councils, prior to their being submitted, in order for the proposer to assess support, clarity of the proposal etc.
4. Remits defeated at the AGM in two successive years will not be permitted to go forward.
5. Remits will be assessed to determine whether the matters raised can be actioned by alternative, and equally valid, means to achieve the desired outcome.
6. Remits that deal with issues or matters currently being actioned by LGNZ may also be declined on the grounds that the matters raised are "in-hand." This does not include remits that deal with the same issue but from a different point of view.
7. Remits must be accompanied by background information and research to show that the matter warrants consideration by delegates. Such background should show:
  - the nature of the issue
  - the background to its being raised
  - the issue's relationship, if any, to the current Work Programme and its objectives
  - the level of work, if any, already undertaken on the issue by the proposer, and outcomes to date
  - the outcomes of any zone or sector meetings which have discussed the issue
  - suggested actions that could be taken by LGNZ should the remit be adopted.

### Process

Under the remits process:

- a remits committee (comprising the President, Vice Presidents and chief executive) is to be formed to review and assess proposed remits against the criteria described in this policy
- to allow time for the remits committee to properly assess remits, all proposed remits and accompanying information are forwarded to LGNZ within two months prior to the AGM

- prior to their assessment meeting, the remits committee will receive a staff report on each remit. The reports will assess each remit against the criteria outlined in this policy
- proposers whose remits fail to meet the tests imposed by this policy will be informed prior to the AGM of the Committee's decision, alternative actions available, and the reasons behind the decision.

To ensure quality preparation for members' consideration at the AGM, the committee will not consider or take forward proposed remits that do not meet this policy, or are received after the due date.

### **General**

Remits discussed at the AGM will be presented in the AGM Business Papers that will be with delegates not later than 2 weeks before the AGM, as required by the Rules.