

Report to Council on the annual audit of
Horowhenua District Council
for the year ended 30 June 2017

Key messages

We have completed the audit for the year ended 30 June 2017. This report sets out our findings from the audit and draws attention to areas where Horowhenua District Council (the District Council) is doing well or where we have made recommendations for improvement.

Audit opinion

We issued an unmodified audit opinion on 11 October 2017. 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

- **Performance measures**

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

Overall we are satisfied that the Council's performance information over these measures fairly reflects the actual performance of the Council for the year. We have noted some areas of continuing improvement in section 2.2.2 of this report.

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

The District Council revalued its infrastructure assets along with its land and buildings as at 1 July 2016 and 30 June 2017 respectively. 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.

- **Pensioner Housing – Properties intended for sale**

The District Council was in the process of finalising the sale of its pensioner housing portfolio during the final audit. This also involved the transfer of the Housing New Zealand suspensory loan. The District Council has made appropriate subsequent event disclosures regarding the sale of the pensioner housing.

Issues identified during the audit

The following table summarises our recommendations and their priority:

Ref	Recommendation	Urgent	Necessary	Beneficial
2.1.2	Performance management reporting Continue to review the effectiveness of the collection and reporting of data.		✓	
2.2.1	Review of Land and Buildings Fixed Asset Register Review the listing of land and buildings to be valued before submitting the information to the valuers to ensure all the assets owned by the District Council are valued and only District Council owned assets are valued. Identify all those land and buildings classified as Infrastructure Assets and should revalue those assets along with the other Infrastructure assets at 1 July.		✓	
2.2.2	Revaluation of PPE Ensure there is a clear reconciliation between the revalued assets back to the valuation information; 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 the lives are in-line with the assets' condition.		✓	
3.2	Quality Assurance and delivery of information to enable an efficient audit process. Continue to enhance the approach and quality review processes around the final audit and ensure there is sufficient resourcing and support to meet the agreed annual audit timetable.		✓	
5.1	Segregation of duties in expenditure process Review and enhance the purchase order controls in the expenditure system to require purchases orders to be approved on a one up basis.		✓	
5.2	Conflict of Interest Policy Develop procedures for each type of Conflict of Interest identified in the policy regarding handling of breaches and the mitigations of these.		✓	
5.3	Creditor Masterfile Change Review Ensure that there is adequate independent review over the creditors Masterfile changes. This review should be evidenced by way of a signature and date. 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.		✓	

There is an explanation of the priority rating system in Appendix 2.

Thank you

We would like to thank the Council and management for the cooperation received during our audit visits.



Debbie Perera
Audit Director
8 February 2017

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1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 11 October 2017. This means that we were satisfied that the financial statements and statement of service performance fairly reflected Horowhenua District Council's (the District Council) activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters.

1.2 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 significant misstatements that have not been corrected are listed in Appendix 2 along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

2 Areas of audit focus

We included our areas of audit focus in our Audit Arrangements Letter issued earlier in the year. Our work on these areas as well as other areas identified during the audit are included in this section of the report:

2.1 Statement of Service Reporting

The Non-Financial Performances Measures Rules 2013 specify a set of standard performance measures for all local authorities. These measures were included in the District Council's 2015 to 2025 LTP and this is the second year it was required to report against them in the annual report.

2.1.1 Performance management reporting

In our final audit we:

- reconfirmed the performance framework from the 2015-25 LTP remained appropriate with performance measures being reported on in the annual report;
- focused on the quality of the overall performance story which showed the District Council have clearly articulated, within each activity, what happened during the year and any major related issues; and
- found that the District Council was able to report back on all its mandatory measures.

We confirmed that the framework and associated performance measures provide an appropriate basis for performance reporting in the 30 June 2017 Annual Report.

2.1.2 Improvements in the performance management reporting

In our 2016 audit we identified areas for improvement and raised them in last year's report to the Council.

This year we reviewed the systems in place for capturing performance information for selected mandatory measures to ensure there were appropriate systems in place to record and report on performance at year-end. We identified that some of our recommendations from last year's reports to the Council had been addressed, but there were still improvements required.

We recommend that the District Council continue to:

- Review 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;
- Perform a regular, weekly or even daily, quality review of data entered into the Customer Request Management system (CRM) in relation to 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;
- Ensure 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;
- Require the contractor to use job sheets, regardless of whether the job is chargeable or non-chargeable, to enable confirmation of response and resolution times;
- Document any calls that are excluded as DIA service requests or complaints. This may require additional fields to be added to the existing CRM if this information is not already captured;
- Continue 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;
- Establish 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
- Use 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

The suggested improvements will be reviewed as part of a project that will involve an internal committee of SSP champions formed across all departments of the District Council to review all SSP reporting on a quarterly basis.

2.2 Revaluation of Property, plant and equipment

The District Council periodically reviews its land, buildings and infrastructure assets. The District Council revalued infrastructure assets at 1 July 2016 and its land and buildings at 30 June 2017.

We reviewed the revaluation of its land and buildings and infrastructure assets and ensured that revaluation movements were correctly accounted for and supported. We obtained the District Council's explanations of variances between the latest and prior years' valuations and assessed these for reasonableness. We also tested the completeness of the underlying information and assessed its reliability.

Overall we found, the revaluations were carried out in accordance with PBE IPSAS 17, the Property, plant and equipment accounting standard, and that the revaluation movements are correctly accounted for and supported. However, refer to sections 2.2.1 and 2.2.2 for areas identified for improvement.

As infrastructure assets were revalued 1 July 2016 we reviewed the revaluations to see whether there were any significant movements between the carrying amount and fair value of its infrastructural assets at year end. This assessment took into account price index changes for the different categories. 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 2017.

2.2.1 Review of Land and Buildings Fixed Asset Register

Recommendations

Review the listing of land and buildings to be valued before submitting the information to the valuers to ensure that all the assets owned by the District Council are revalued and that only District Council owned assets are valued.

Identify all those land and buildings classified as Infrastructure Assets and ensure that these are revalued along with the other Infrastructure assets at 1 July.

Findings

During our review of the valuations we found that not all assets in the land and buildings asset class were revalued and there were assets that were revalued by the valuer that the District Council no longer owned.

Some land and building assets are classified as infrastructure assets, however they were not split out and were revalued as part of the land and buildings revaluation as at 30 June 2017 instead of 1 July 2016 in line with the rest of their asset class. As the

District Council intends to revalue its infrastructure assets on an annual cycle, these assets will also need to be revalued annually on a 1 July cycle going forward.

Management comment

Land and building assets that are classified as infrastructure assets will be revalued with the rest of the infrastructure assets as of 1 July 2017 as recommend by audit.

2.2.2 Revaluation of property, plant and equipment (PPE)

Recommendations

Ensure there is a clear reconciliation between the revalued assets back to the valuation information.

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 the assets condition.

Findings

We identified the following issues during our audit of the revaluation of PPE:

- There was initially, a poor reconciliation of the revalued assets back to the valuation information and we found some reconciliation differences. These were subsequently corrected.
- Adjustments to the valuation information were difficult to follow and increased the audit time involved in reviewing the valuation work. As the District Council is intending to revalue its infrastructure assets annually audit will work with them to develop a more efficient process going forward.
- The valuations assumed that useful lives of infrastructure assets had remained the same and no review was done against asset condition. A review of lives taking condition into consideration should be performed as part of the 1 July 2018 valuations, to comply with the Property, plant and equipment accounting standard.

Management comment

The reconciliation between revalued assets and valuation information will be better next time. Will ensure asset lives will be reviewed as part of the next revaluation as recommended.

2.3 Amalgamation of the Te Horowhenua Trust assets and operations

Effective 1 July 2016 the Te Horowhenua Trust was wound up by Council and the assets, liabilities and operations were all brought back into the Council operations.

We reviewed the amalgamation of the Trust assets and operations and reviewed the disclosures in the annual report, no significant issues were noted.

2.4 Management override

In any entity, management are potentially 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.

Although we do not have any indications that the level of risk of management override of controls for the District Council is not low, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur it results in a risk of material misstatement due to fraud.

We did not identify any issues that would indicate management override occurring.

3 Other items noted during the audit

We have identified, in broadly the following order of importance, the following matters that are of interest.

3.1 Pensioner Housing – Properties intended for sale

The District Council was in the process of finalising the sale of its pensioner housing portfolio during the final audit. This also involved the transfer of the Housing New Zealand suspensory loan.

We reviewed the accounting treatment and note that the District Council has made appropriate subsequent event disclosures regarding the sale of the pensioner housing with a loss on sale of \$1.86m to be recognised in the 2017/18 financial year.

3.2 Quality Assurance and delivery of information to enable an efficient audit process

Recommendation

Continue to enhance the approach and quality review processes around the final audit and ensure there is sufficient resourcing and support to meet the agreed annual audit timetable.

Findings

While we have noted an improvement to the quality of the annual report presented to audit there were some areas that were incomplete in the first draft set of accounts and a quality assurance review over the draft documentation would identify some of the adjustments audit identified.

There were also delays during the audit in receiving follow-up information especially in relation to revaluations and some service performance measure support. This impacted on the timeliness and completion of audit work. A portion of the audit work occurred outside of the agreed audit timeframe.

The District Council needs to continue to develop a planned approach and have sufficient dedicated resources available to ensure the timely delivery of the draft

financial statements, supporting work papers, and draft annual report document to meet the agreed annual audit timetable.

We will continue to liaise with management on ways to improve the efficiency of the audit process.

Management comment

Noted. The project planning will be reviewed to address these issues.

4 Assessment of your control environment

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"¹ and "operational effectiveness"² of internal control. The explanation of these terms is outlined below. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

In performing this assessment we have identified areas where we believe the control environment can be improved. These matters are in section 5 of this report.

Internal controls

We reviewed the internal controls in place for payroll, expenditure, revenue, fixed assets, non-financial performance, and other ancillary systems, performing walkthroughs of these systems, and testing that they operated effectively, where relevant.

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 control is important to minimising the risk of either fraud or misstatement occurring.

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

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

² Control has operated effectively throughout the period tested.

Although we noted significant improvement in the systems and controls over the collection of data of mandatory performances measures, the lack of controls over the expenditure system remains a concern. Although Management has developed a report that may assist to mitigate the risks of unauthorised expenditure, without the one-up review there is still the risk of fraud and inefficiencies. We further noted several prior year recommendations, in Appendix 3 which have either been partially implemented or not implemented at all.

Areas identified during our audit visits where systems and controls can be improved on are noted in sections 5 below.

5 Financial System and Controls Improvement areas

We noted the following areas where financial controls could be improved.

5.1 Lack of segregation of duties in expenditure process

Recommendation

Review and enhance the purchase order controls in the expenditure system to require purchases orders to be approved on a one up basis.

Alternatively the report developed during the year that highlights self-approved purchase orders/invoices be specifically reviewed by the managers in charge of the relevant business unit prior to the payment of these transactions.

Findings

In last year's report to the Council, we raised an issue to highlight the lack of segregation of duties in the expenditure system. The segregation of duties risk has increased this year with the changes to the purchase order approval system as all purchase orders now use the electronic purchase order system.

Under the new electronic purchase order system employees that 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 both last year and again this year, that there is no intention to following a one-up approval approach in the electronic purchase order system. However we understand that management are monitoring expenditure for efficiencies using the report developed over procurement this is discussed further below.

We also raised last year the option of 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.

Management has 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 and we understand that these are being followed up. However we recommend 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.

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

Management Comment

Management disagree with Audit on this subject and again will be indicating that there is no intention to implement one up approval of purchase orders.

Council believes that the current control processes are sufficiently robust. The current system has a number of controls already built into it.

Anyone who has access to requisitions can raise a requisition, however if they have no delegated authority or the requisition is over their delegated limit then the requisition goes to their immediate line manager for approval and generating a purchase order.

When the invoice is received the invoice is entered into the AP workflow. AP workflow will determine the action required for approval of the invoice. If for example the purchase order has not been receipted then the invoice is sent to the person who has raised the requisition. Again if this person has no delegated authority or the invoice is over their delegated limit then the invoice goes to their immediate line manager for approval

While it is possible a person with delegated authority can approve and receipt a purchase order, which would result in the invoice being approved without further manager intervention, in practice this rarely happens and the majority of invoices are tasked back to a line manger via AP workflow for approval by a person with the appropriate delegated authority.

Managers have been given appropriate delegations to enable them to undertake their duties. These delegations have been approved by Council and form part of their employment contracts.

In addition there is a further control as activity managers are regularly reviewing their expenditure via reporting services that would also identify any issues.

The segregation of duties issue could be addressed by having a series of administration officers with no delegation that would raise requisitions that would require approval by their line manager.

It is Council's view that sufficient controls currently exist in the procurement process and the implementation of one up approval for purchase orders would neither be operationally efficient nor significantly lessen the risk.

5.2 Conflict of Interest Policy

Recommendation

Develop procedures for each type of conflict of interest identified in the policy regarding handling of breaches and the mitigations of these.

Findings

Last year we recommended that the Conflict of Interest Policy needed to be reviewed and that it did not contain enough information regarding handling breaches of the policy and their mitigations.

We are pleased to see the policy has been reviewed in 2016/17. However, more detail still needs to be included for handling of issues, breaches and their mitigations. This could be done by inserting a section which covers handling of all breaches under the policy.

We noted that procedures are included for gift receipting, and political involvement and private comment but more guidance could be included for other areas such as secondary employment.

Management comment

This policy will be reviewed and we will consider the issues identified. We will give Audit NZ the ability to review the revised policy before its adoption.

5.3 Creditor Masterfile Change Review

Recommendations

Ensure that there is adequate independent review over the creditors Masterfile changes. This review should be evidenced by way of a signature and date.

Review current processes to ensure there is adequate supporting information to verify that creditors and changes are bona fide.

Implement a regular review process to remove redundant creditors.

Findings

We noted, during our review of the Creditor Masterfile changes, that the staff member responsible for the review is not independent as they have the ability to edit creditors' details in the system. This creates a risk that unauthorised changes to credit masterfile details could be made. We noted too that while there is evidence of regular reviews, the reviews are not being evidenced by way of both a signature and date.

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. Creditors set up in the system should also be regularly reviewed so creditors not used, within a set period, are removed.

To strengthen the current process any creditor's changes made by the current reviewer should be independently reviewed by another staff member. The review should be performed before the creditor's payment run and initialled by way of signature and date. Furthermore it would be beneficial to review the robustness of current creditor maintenance processes to check if these could be further enhanced.

Management comment

The comments from Audit are noted. The approval of creditor masterfile changes is recognised as an important internal control.

With regard to the independence of the reviewer it is noted that a review of the masterfile changes will show that this person does not make masterfile changes. In addition review by an alternative person would limit the effectiveness of this review as the current reviewer has a greater knowledge of ongoing masterfile changes.

All masterfile changes for the 2017/18 year have been reviewed, signed and dated.

It is acknowledged that the need for vigilance in masterfile changes is important. Council has a process in place for approval of new creditors. Bank account changes require a bank deposit slip or independent confirmation.

Finance has in their 2017/18 business plan to review the creditor masterfile and remove duplicate and redundant creditors.

6 Status of previous recommendations

The status of each matter that was outstanding in last year's report to the District Council is summarised in Appendix 3.

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
10	Closed - Matters have been resolved
12	In progress - Progress is being made, but issue not yet fully resolved or further improvement required
7	Outstanding - No progress has been made

This summary needs to be read in conjunction with the status of recommendations raised in previous years' reports to the Council as detailed at Appendix 3.

Appendices

Appendix 1: Explanation of priority rating system

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

Urgent Major improvements required	Needs to be addressed urgently These recommendations relate to a significant deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the performance information; a breach of significant legislation; or the risk of reputational harm.
Necessary Improvements are necessary	Address at the earliest reasonable opportunity, generally within 6 months These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.
Beneficial Some improvement required	Address, generally within 6 to 12 months These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weaknesses that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.

Appendix 2: Uncorrected misstatements

Current year misstatements	Assets	Liabilities	Equity	Financial Performance
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Doubtful Debts Expense ¹	113,817			
Provision for doubtful debts		113,817		

1 Provision for doubtful debts on Maori land. Not adjusted as not material.

Appendix 3: Status of previous recommendations

Outstanding matters

Recommendation	Current Status	Priority	Management's proposed action
<p>Segregation of duties in expenditure process</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>	<p>In Progress</p> <p>A report has been developed. Refer to 5.1 for an update on the finding.</p>	Necessary	Refer to 5.1
<p>Creditor master file review</p> <p>Complete an independent review over the creditor master file changes made year to date as soon as possible to provide assurance to management that changes made were bona fide.</p> <p>Reinstate the monthly review of the creditor master file, evidenced by way of a signature and date prior to each creditor payment run.</p>	<p>Outstanding</p> <p>We noted during our interim audit that the review performed is not independent and the date of review is not recorded. Best practice is that an independent review is performed prior to each pay run's completion to prevent rather than detect fraudulent transactions from occurring. Ref to 5.3</p>	Necessary	Refer to 5.3
<p>Reporting of unplanned and deferred maintenance</p> <p>Report planned, unplanned and deferred maintenance on a regular basis to the District Council to allow monitoring and action as required.</p>	<p>In progress</p> <p>Although maintenance is reported to the District Council as part of the monthly management accounts, there is no evidence that unplanned and deferred maintenance are being reported as a specific item on the council meeting Agenda.</p>	Necessary	<p><i>As all planned and unplanned maintenance is done when the need arises we do not consider there is any unplanned or deferred maintenance. Unplanned maintenance is budgeted for. All maintenance issues are used to inform the review of the various relevant Asset management Plans.</i></p>

Recommendation	Current Status	Priority	Management's proposed action
<p>Keeping the interest register up to date Remind elected members and other key management personnel to update the interest register on a regular basis.</p>	<p>In progress During our testing we identified several interests held by councillors which were not declared and recorded in the interest register. We confirmed these interests had not transacted with the District Council but we urge the councillors to continue to declare and record and interest they may have and keep the interest register up to date.</p>	<p>Necessary</p>	<p><i>The interest register for Councillors and senior staff has been updated</i></p>
<p>Risk management The District Council formally endorse the risk policy and review its current risk management framework/processes for appropriateness.</p>	<p>In progress We understand that the District Council is currently in the process of updating its overall risk management framework, policy and procedures.</p>	<p>Necessary</p>	<p><i>The Risk Framework was updated and the Risk Policy v1.9 was adopted by Council in November 2017. Copies of the policy and framework have been provided to Audit.</i></p>

Recommendation	Current Status	Priority	Management's proposed action
<p>Project management improvements Formalise the methodology for managing projects and ensure there is a planned approach to post implementation review in place.</p>	<p>Outstanding</p>	<p>Necessary</p>	<p><i>Management agrees that this is an area where the District Council could look to improve through implementation of an organisation wide approach to project management principles and methodology. Council is participating in a shared training initiative with Manawatu District Council to provide opportunities for staff to complete project management theory and practical training. 5 Horowhenua District Council staff have successfully completed project management certification through this training initiative. Parallel to this process a number of templates have been established across the spectrum of project management to provide staff with a toolkit to utilise and this will continue to evolve over time.</i></p>

Recommendation	Current Status	Priority	Management's proposed action
<p>Procurement Strategy and Policy 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>	<p>In progress There is currently a Procurement and Purchasing Manual in progress. We understand that the District Council is aware of the audit recommendations and there is an intention of incorporating these in the upcoming manual.</p>	<p>Necessary</p>	<p><i>The procurement policy version 2.0 was adopted in 2017 and will be due for annual review April 2018. The guidelines, processes and intranet toolkit were all updated as part of this process and have been provided to Audit.</i></p>
<p>Conflicts of interest policy Review and update the Conflicts of Interest policy to reflect best practice in the sector including:</p> <ul style="list-style-type: none"> • Policy to be reviewed and endorsed by EMT; and • The policy include a clearer mechanism on how breaches are handled or on what the consequences are for non-compliance. 	<p>In Progress During the interim testing we confirmed that the policy has been updated. Through our review we made further recommendations. Refer to 5.2</p>	<p>Necessary</p>	<p>Refer to 5.2</p>
<p>Legislative compliance Council to look at mechanisms to actively monitor compliance with legislative requirements.</p>	<p>Outstanding The District Council continues to utilise informal process to monitor and report on its compliance with laws and regulations.</p>	<p>Necessary</p>	<p><i>This will be reviewed by Council officers to find the best solution.</i></p>
<p>Collectability of rates debtors 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.</p>	<p>In progress Although a report was prepared to identify uncollectable debt, during the audit we noted that not all uncollected debt was provided for. Management only provided for 85%, which is more than the 75% provided for last year. The 15% balance was included in the schedule of unrecorded misstatements.</p>	<p>Necessary</p>	<p><i>The provision will be increased to 100% in the 2017/18 year.</i></p>

Recommendation	Current Status	Priority	Management's proposed action
<p>Contract management</p> <p>The District Council is to endorse an integrated policy for organisation-wide use.</p> <p>PPE additions - missing contract documentations</p> <p>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.</p>	<p>In Progress</p> <p>See Management comments to the right.</p> <p>We did not identify missing contracts this year</p>	<p>Necessary</p>	<p>Management agrees that this is an area where the District Council could look to improve through implementation of an organisation wide policy and procedures. This will be factored into HDC's work programme for the 2017/2018 year. In the short term, a contract register has been created and populated or all existing contracts and this is reported on monthly. Copies of the reporting have been provided to Audit.</p>
<p>Maintenance of fixed assets WIP schedule/depreciation</p> <p>Monitor WIP balances on a regular basis to ensure that any WIP that should be capitalised, is.</p> <p>All significant capital additions are depreciated when the asset becomes available for use.</p> <p>As depreciation is only calculated at year end, the District Council should review larger additions to check if depreciation should be recognised earlier.</p>	<p>Outstanding</p> <p>Confirmed during the audit that WIP is only monitored and capitalised at year-end.</p>	<p>Necessary</p>	<p>Agree this is a good idea but unable to do it so far this year due to LTP comments. Will endeavour to monitor WIP balances on a quarterly basis.</p>

Recommendation	Current Status	Priority	Management's proposed action
<p>Maintenance of fixed asset register (FAR)</p> <p>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.</p> <p>Implement regular reconciliations between the Asset Management Systems maintained by the asset managers and the Fixed Assets Register maintained by the finance team. The reconciliations should be reviewed by an independent person evidenced with a dated signature.</p>	<p>Outstanding</p> <p>Confirmed during the audit that these processes and controls still only take place at year-end. There are still no continuous monitoring and updating of the FAR and no formal reconciliation takes place between the FAR and the GL.</p>	<p>Necessary</p>	<p><i>Agree this is a good idea but unable to do it so far this year due to LTP comments. Will endeavour to reconcile on a quarterly basis.</i></p>
<p>Policy on deposits and bonds</p> <p>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.</p>	<p>Outstanding</p> <p>No policy has been adopted.</p> <p>Through our audit we can see that historical balances are being cleared.</p>	<p>Necessary</p>	<p><i>Council will consider whether a policy is necessary. The issue is primarily to ensure that they are cleared in a timely fashion.</i></p>
<p>Valuation of property, plant and equipment</p> <ul style="list-style-type: none"> • Ensure quality assurance review is carried out to future in-house revaluations. • Ensure completeness and accuracy of the data contained within the asset management records. • Query assumptions used by external valuers. 	<p>In Progress</p> <p>During the audit we confirmed that management obtained the services of experts to assist with the valuation of the PPE. Several recommendations were made regarding the valuation of PPE. Refer to 2.2</p>	<p>Necessary</p>	<p><i>Refer to 2.2</i></p>
<p>Performance measure rules</p> <p>Continue to review the effectiveness of the collection and reporting of data.</p>	<p>In Progress</p> <p>We noted an improvement over the reporting of the performance measure. We made several recommendation regarding the collection of data and reporting of performance measures. Refer to 2.1</p>	<p>Necessary</p>	<p><i>Refer to 2.1</i></p>

Recommendation	Current Status	Priority	Management's proposed action
<p>Mobile/PDA policy The Mobile/PDA policy be reviewed in line with OAG guidelines.</p>	<p>In Progress The policy has been updated and will be reviewed by our IS auditors during the 2017/18 audit.</p>	<p>Necessary</p>	<p><i>Council awaits the feedback from your review</i></p>
<p>Procurement review Implement the improvements identified from the procurement reviews in 2016 and include any policy improvements in the 2017 procurement policy update.</p>	<p>In Progress The audit acknowledged the sound policy, guidance toolkits and training which had been provided to staff as part of the review. Audit NZ have noted further enhancements which the District Council could make and we understand these will be taken on board. To be followed-up during the 2017-18 audit.</p>	<p>Necessary</p>	<p><i>The procurement policy version 2.0 was adopted in 2017 and will be due for annual review April 2018. The guidelines, processes and intranet toolkit were all updated as part of this process and have been provided to Audit.</i></p>
<p>Evidence on NZTA claim review We recommend that the reviewer signs and dates the documentation as evidence of their review. During our review of the NZTA claim system we noted that balances are entered into a claim spreadsheet. The spreadsheet automatically calculates the subsidy that the Council will receive. The Roading Services Manager reviews the completed spreadsheet for completeness and accuracy before he prepares the claim. There is no evidence of this review.</p>	<p>Outstanding This issue remains outstanding.</p>	<p>Necessary</p>	<p><i>This review is in place and evidenced by the officer doing the review and reconciliation to the ledger.</i></p>

Matters that have been resolved

Recommendation	Outcome
<p>Sensitive expenditure policy Review the sensitive expenditure policy, in conjunction with the employee handbook, to ensure consistency between the two documents.</p>	<p>The policy has been updated and is now consistent with the handbook. Issue Cleared</p>
<p>Organisational Business Continuity and IT Disaster Recovery Finalise and test the Organisational Business Continuity and IT Disaster Recovery. Perform formal test restores to ensure data can be recovered from tape.</p>	<ul style="list-style-type: none"> • Organisational Business Continuity and IT Disaster Recovery have been finalised and tested. • Formal restore tests performed to ensure data can be recovered from tapes. <p>Issue Cleared</p>
<p>Patching and Virus Management improvements Review patch and virus management procedures to ensure that the systems are managing all of the District Council's current devices. Establish an after-hours outage window so that IT staff are able to take servers down to perform maintenance and configuration. Establish reporting on the status of patching and virus management to ensure councils systems are protected.</p>	<ul style="list-style-type: none"> • Patch and virus management procedures were reviewed to ensure that the systems are managing all of council's current devices. • There is an after-hours outage window to ensure IT staff are able to take servers down to perform maintenance and configuration. • Established reporting on the status of patching and virus management to ensure councils systems are protected. <p>Issue Cleared</p>
<p>Establish regular testing of backups Establish a cycle of testing the restoration of data from backups as part of the District Council's business continuity planning</p>	<p>A cycle of testing restoration of data from backups has been established as part of the District Council's business continuity planning. Issue Cleared</p>
<p>Rates Resolution Review the approved rates resolution, to be included in the publicly available minutes, to ensure the completeness and accuracy of the information.</p>	<p>The 2017/18 approved rates resolution agreed to the annual Plan rating FIS and the public minutes. Issue Cleared</p>

Recommendation	Outcome
<p>Monitoring of swimming pool revenue Develop a robust system for reviewing revenue for the admissions to the individual pools so revenue streams can be more accurately monitored and any potential issues detected early.</p>	<p>Confirmed through review of the Swimming pool management reporting that there was adequate reporting and monitoring of the Levin Aquatic Centre revenue streams. Issue Cleared</p>
<p>Enforcement of the delegated financial authority Remind staff of the need to comply with delegated financial authority and remind processing staff to be more diligent in making sure the delegated financial authority is appropriately followed. Encourage staff to use of the Online Requisition system to reduce the risk of payments being approved outside staff delegation.</p>	<p>The delegated financial authorities have been updated and implemented in the system. We did not identify any instances where the delegations were not followed. Issue Cleared</p>
<p>Parking meter tickets Track the sequential numbers on the parking meter tickets in the reconciliation to ensure that the District Council receives all coins from the parking meters</p>	<p>Confirmed through inspection the reconciliation now include the parking meter receipt numbers and the sequential numbering are reviewed. Issue Cleared</p>
<p>High annual leave balances Employees with excessive leave balances be encouraged to reduce their leave balances.</p>	<p>We noted through our review and discussion with management that outstanding leave balance are reviewed and followed up on a regular basis. Issue Cleared</p>
<p>Annual Report Summary Review the summary annual report format to ensure that it is succinct and easily read by the ratepayers.</p>	<p>The annual report summary presentation has improved significantly. It is now more succinct and can be easily read by ratepayers. Issue Cleared</p>

Appendix 4: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements 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 carry out our audit in accordance with Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The District 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> <p>Other than the audit and these engagements, we have no relationship with, or interests in, the District Council.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year.</p>
Unresolved disagreements	<p>We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.</p>