



**TO THE MAYOR AND COUNCILLORS OF THE
MACKENZIE DISTRICT COUNCIL**

MEMBERSHIP OF THE AUDIT AND RISK COMMITTEE

Claire Barlow
Murray Cox
Russell Armstrong
Graham Smith

Notice is given of a meeting of the Audit and Risk Committee (a sub-committee of the Finance Committee) to be held on Tuesday, September 1, 2015, following the completion of the Forestry Board meeting.

VENUE: Council Chambers, Fairlie

BUSINESS: As per agenda attached

WAYNE BARNETT
CHIEF EXECUTIVE OFFICER



AUDIT AND RISK COMMITTEE

Agenda for Tuesday, September 1, 2015

APOLOGIES

DECLARATIONS OF INTEREST

MINUTES:

Confirm and adopt as a correct record the minutes of the Audit and Risk Committee meeting held on February 2, 2015.

REPORTS:

1. Audit New Zealand Report to Council on the audit of the Consultation Document. (attached)
2. Powerpoint presentation from David Rae on "Status of ERM in Council".

ADJOURNMENTS: 10.30am - Morning Tea
12pm - Lunch

MACKENZIE DISTRICT COUNCIL

MINUTES OF A MEETING OF THE AUDIT AND RISK COMMITTEE HELD IN THE COUNCIL CHAMBERS, FAIRLIE, ON TUESDAY, FEBRUARY 2, 2015 AT 9.30AM

PRESENT:

Cr Graham Smith
Mayor Claire Barlow
Cr Murray Cox

IN ATTENDANCE:

Cr James Leslie (observing)
Wayne Barnett (Chief Executive Officer)
Paul Morris (Finance and Administration Manager)
David Rae (Projects and Administration Manager)
Arlene Goss (Committee Clerk)
Julie Jongen (Committee Clerk)

APOLOGIES:

An apology was received from Cr Russell Armstrong.

DECLARATIONS OF INTEREST:

There were no declarations of interest.

ELECTION OF CHAIR AND DEPUTY CHAIR:

Cr Smith nominated the Mayor to be chairperson of the Audit and Risk Committee. This was seconded by Cr Cox. The Mayor was appointed chair of the Audit and Risk Committee.

The Mayor nominated Cr Smith to be deputy chair of the committee, seconded by Cr Cox. Cr Smith was appointed deputy chair.

MINUTES:

Resolved that the minutes of the meeting of the Audit and Risk Subcommittee meeting held on May 3, 2013, be confirmed and adopted as the correct record of the meeting.

Graham Smith/Claire Barlow

REPORTS:

AUDIT MANAGEMENT REPORT:

The members received and considered the "Report to the Council on the Audit of Mackenzie District council" from Audit New Zealand.

The Mayor said she would like to see quarterly meetings of the Audit and Risk Committee to monitor and address risk issues.

Finance manager Paul Morris spoke regarding the findings of the audit report. The key findings include items such as the fraud that occurred in the Twizel office, a vehicle that was not registered in council's name, funds not accounted for related to the Pukaki Airport Board that are held in trust. Council met its legislative requirements in terms of getting its Annual Plan completed on time but did not send a copy to the auditor general or parliamentary library. A person has been appointed to manage this process in future.

A discussion was held on the cost of the audit and whether this was appropriate. The Mayor asked for comparable information on audit costs at similar councils. Paul Morris offered to supply this.

Paul Morris said he found it frustrating that council did not find out about increases in audit fees until the end of the process. It would be helpful to know this in advance.

Cr Smith said the annual cost of auditing is becoming more expensive each year and the rules keep changing. He noted some recommendations that come to council each year. He congratulated Paul Morris for his work.

Paul Morris gave an example of a change in interpretation by auditors related to mileage reimbursement for elected members which has created additional work and time for staff. His major issue is the lack of consistency year on year.

The Mayor asked for updates on some of the items listed by auditors in the report. Paul Morris told the meeting what steps he had taken to address these issues and prevent fraud.

The Mayor asked if Paul Morris would report back that he has checked journals and found them to be correct. This is a management issue. The chief executive said management will make an appropriate report on the status of the issues to inform councillors that they have been addressed. This is to come to the next meeting of the Audit and Risk Committee.

Resolved that the report be received.

Murray Cox/Graham Smith

THE CHAIRMAN DECLARED THE MEETING CLOSED AT 10.08AM

CHAIRMAN: _____

DATE: _____

Report to Council on the audit of

Mackenzie District Council

Consultation Document for the period

1 July 2015 to 30 June 2025

Management report

Report to the Council

We have completed the audit of the Mackenzie District Council's (the Council's) Long Term Plan Consultation Document for the period 1 July 2015 to 30 June 2025. This report sets out our findings from the audit and draws attention to our detailed findings, and where appropriate, makes recommendations for improvement.

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Key messages

We have completed the audit of the Council's Consultation Document (CD) for the period 2015-25 and issued an unmodified opinion on 20 May 2015.

Audit of the consultation document

We reviewed the consultation document against legal requirements and good practice. We also checked that the key information was fairly presented in the CD and was consistent with the underlying information. We are satisfied that the CD meets the required standard for consultation with the community.

Future focus

As well as the opinion issued on the CD we will also issue an opinion on the final LTP that will be adopted before 4 August 2015.

The Council needs to ensure that there are systems in place to monitor its actual performance against budgets, levels of service and performance measures included in the LTP from 1 July 2015. These systems will assist with annual reporting, and also internal monitoring and reporting to the Council.

Council needs better management of progress against its timetable

Management developed a detailed project plan, but the Council collectively was unable to meet this timetable. This resulted in the CD being adopted much later than originally intended. We saw no evidence that progress, against the project plan, was actively monitored.

We recommend that in future, Council develops a realistic timetable, actively monitors progress against its timetable, and acts promptly to address any slippage in meeting the key milestones.

Thank you

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



John Mackey
Audit Director
6 July 2015

1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on the Council's CD on 20 May 2015. This meant we were satisfied the Council's LTP CD meets the statutory purpose and provides an effective basis for public participation in the Council's decisions on the proposed content of the 2015-25 LTP.

We assessed that the underlying information, and assumptions, used to prepare the CD, provided a reasonable and supportable basis for the preparation of the CD.

1.2 There are no uncorrected misstatements

The CD is free from material misstatements, including omissions. We have discussed the misstatements that we found with management, other than those that were clearly trivial.

All misstatements identified were corrected prior to Council adopting the CD.

2 Audit scope and objectives

The scope of our audit engagement, and our respective responsibilities, are included in our audit proposal and arrangements letter dated 23 January 2015.

3 Consultation issues in the CD

3.1 Is it time for Council to sell some forestry land?

Council proposes to sell two blocks of forestry land and use the proceeds, or a portion of the proceeds, to subsidise the costs of infrastructure. Under the Council's preferred option, rates will be slightly lower than the alternative option, which is to keep the forestry land and wait for the trees to mature and then harvest them. The preferred option provides funds now that can be utilised to subsidise the cost of infrastructure, which also has reduces the level of increase in rates.

In our view, both options and their implications are adequately explained in the CD. The CD provides a reasonable basis for consultation on this issue.

3.2 How will Council pay for roads?

The Mackenzie District has a vast roading network. The District Council is faced with three major issues affecting its roading network:

- 1 a reduction in the level of financial assistance from the government;
- 2 introduction of the "One Network Road Classification" (ONRC) for evaluation of roading subsidies; and
- 3 the need for funding to increase to maintain roads at agreed service levels.

Council has proposed three options to address these issues. Option one, which is the preferred option, is to increase rates by 8.65%, 10.2% and 11.9% in years one to three. Costs will stabilise going forward. This option will address the Council's needs to maintain levels of service at current levels. However, it will have an impact on the affordability of rates for ratepayers in the district. Options two and three involve spending less and keeping rates increases at a lower level. However, this would result in a decline in the quality of roads over time.

We reviewed the information provided. Our primary concern was whether the impacts and implications of each option were clearly presented. We considered whether a reader could gain a reasonable understanding of both the costs of each option and the impacts on future levels of service.

It is important for effective consultation that readers can understand the relationship between rates and the level of service. We also confirmed that the information in the CD was consistent with the underlying information in the Infrastructure Strategy, asset management plan, and financial model.

We are satisfied that the CD provides sufficient information for residents to understand that costs and implications of each option. The information in the CD provides a reasonable basis for consultation.

3.3 How will Council pay for water, sewerage and stormwater?

Currently, each town within the district is responsible to fund all the costs of its own water supply, sewerage and stormwater infrastructure. Large projects are forecast for each town in the district in the next thirty years. Council is faced with the issue of maintaining essential services while keeping rates affordable for all ratepayers.

Council has proposed five options to address this issue. The preferred option is to spread the costs of water, sewerage and stormwater infrastructure across the towns in the district so that all users pay the same for each service. This option also includes using the proceeds of the sale of forestry land, to subsidise the cost of water infrastructure.

This option results in the overall rates, charged for water infrastructure, rising smoothly over time, with all ratepayers paying on the same basis, in each town. Levels of service will also be maintained as each town will have the same service across the district. This addresses both the maintenance of levels of service and affordability of rates.

The other four options involve an increase in rates for the district, and/or a lower level of service.

We considered whether the impacts and implications of each option were clearly presented. We also confirmed that the information provided was consistent with the underlying information. We concluded that the CD provides a reasonable basis for consultation.

4 Underlying information

Council prepared and adopted the underlying information necessary to support the CD.

We reviewed the underlying information as an integral part of our audit of the CD. This included comparing the forecast financial information against the assumptions to confirm that the assumptions have been consistently applied. The underlying information provided a reasonable basis for the preparation and content of the CD.

5 Infrastructure strategy

Council is required to prepare an Infrastructure Strategy under section 101B of the Local Government Act, and to include a summary of the content of the Infrastructure Strategy in the CD. This was the first time that an Infrastructure Strategy was required. We expect that the quality of these documents will improve as councils gain more experience in their preparation.

We compared the strategy to legal requirements and good practice. As a result of this we recommended improvement, which were addressed in part. Overall we rated the infrastructure strategy as needing improvement, but we were satisfied that it was acceptable for consultation.

Particular areas where there is room for improvement include:

- provision of condition and performance information for all infrastructure;
- identification of critical assets;
- discussion of the sustainability of asset performance and the funding required to support it;
- consistent description of the approximate scale or extent of the costs associated with each decision; and
- description of the potential effects where there are assumptions with a high level of uncertainty.

6 Asset management planning

We reviewed aspects of Council's asset management planning. Our main focus was on the roading and water asset management plans (AMPs), as these are the most significant to Council.

We found that the AMPs, and the data drawn from them, are sufficiently robust for the purposes of our audit. The AMPs take a pragmatic and sound approach based on Council's knowledge of its assets, the asset management risks, and the cost versus benefits of using a more sophisticated approach.

We noted that currently has no formal risk management processes implemented for the roading or water supply activities. Given the value of Council's assets, the level of

expenditure on these activities, and the potential health and safety risks, it would be prudent for Council to review its approach.

We recommend that the Council implement formal risk management processes for significant infrastructure.

7 Project management and reporting deadlines

The development of the CD and LTP is a significant and complex project and a comprehensive project plan is required for a successful LTP process. Management developed a detailed project plan and we aligned our audit timetable with this. However, Council collectively was unable to meet its timetable, resulting in the CD being adopted much later than originally intended.

7.1 Council needs better management of progress against its timetable

It is apparent that progress against the project plan was not adequately monitored. Council was not able to meet the milestones in its timetable. Effective monitoring would have identified this earlier and allowed Council to take remedial action to get the process back on track. We acknowledge that the LTP process is a challenge, and that Council has limited capacity to cope with the additional work involved. However this makes good project management even more important.

Of particular concern were significant delays in the preparation of the asset management plans and activity management plans and the related supporting documentation. These should have been completed early in the process as they should form the basis of the budgeting for each activity.

We recommend that in future, Council develops a realistic timetable, actively monitors progress against its timetable, and acts promptly to address any slippage in meeting the key milestones.

Management comment

Agreed.

8 We will audit the final LTP in July

The next step in the LTP audit process will be the audit of the final LTP. This is scheduled to be undertaken in July 2015.

To ensure our audit of the LTP is efficient, we expect the Council to prepare a schedule of changes to the financial forecasts, and performance framework, which formed the basis of the CD. This will enable us to assess the extent of changes as a result of community consultation and tailor our audit work accordingly.

Under section 94(1) of the Act, our audit report on the final LTP forms part of the LTP, which the Council is required to adopt before 1 July 2015 (section 93(3)). Due to the late adoption of the CD, Council will not be able to adopt the LTP by 1 July.

Our agreed timeframes will enable us to issue our audit report in time for the Council to formally adopt the LTP at its meeting on 4 August 2015.

We are responsible to report as to whether the LTP meets its statutory purpose and provides a reasonable basis for integrated decision making by the Council, and accountability to the community.

We have already assessed the quality of the underlying information and assumptions as part of the audit of the CD. For the audit of the LTP, we will assess whether these apply to the LTP itself.

We will consider the effect of the decisions made as a result of the consultation process and review the LTP to gain assurance that appropriate, material, consequential changes and disclosures have been made.

At the conclusion of the LTP audit, we will ask Council to provide us with a signed representation letter on the LTP. The audit team will provide the letter template during the final LTP audit.

8.1 Legal advice on Council's proposed rates

As rates is the major revenue source of nearly all councils, it is important for any council to ensure that rates are set in accordance with legislative requirements. There is an added element of risk this year as the Council proposes to make changes to its rates, particularly the districtisation of rates for water, sewerage and stormwater infrastructure.

For the final LTP, we recommend that the Council seek legal advice on its proposed rates changes to gain assurance that rates are set appropriately in accordance with legislation.

Management comment

Agreed.

8.2 Performance measures for unsealed roads

The Government has introduced mandatory performance measures for many aspects of Council's roading, water, sewerage, and stormwater infrastructure. For the water, sewerage, and stormwater infrastructure, we accept that the mandatory measures generally cover the key areas for performance. However, we do not believe that this is the case for roading. The mandatory measures do not include any performance measures for unsealed roads.

A significant portion of Council's roading network is unsealed. Given the extent of unsealed roads, we expect that Council would have performance measures that cover the level of service that Council is providing.

For the final LTP, we recommend that Council review how it will measure and report the level of service for unsealed roads, and add appropriate performance targets.

Management comment

Agreed.

Appendix 1: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the 2015-25 Long Term Plan Consultation Document (CD) and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.</p> <p>The audit of the CD does not relieve management or the Council of their responsibilities.</p> <p>Our audit proposal and audit arrangements letter dated 23 January 2015 contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>, the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i>, and the Auditor-General's auditing standards.</p>
Auditor independence	<p>We confirm that, for the audit of the Mackenzie District Council's CD for the period 1 July 2015 to 30 June 2025, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>Other than our work in carrying out all legally required external audits, we have no relationship with or interests in the 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 Mackenzie 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 Mackenzie District Council during 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 CD. Management has not sought to influence our views on matters relevant to our audit opinion.</p>