



**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, February 3, 2015, at 9.30am.*

**VENUE:** Council Chambers, Fairlie

**BUSINESS:** As per agenda attached

WAYNE BARNETT  
CHIEF EXECUTIVE OFFICER



## **AUDIT AND RISK SUBCOMMITTEE**

Agenda for Tuesday, February 3, 2015

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### **APOLOGIES**

### **DECLARATIONS OF INTEREST**

### **ELECTION OF CHAIR AND DEPUTY CHAIR**

### **CONFIRMATION OF MINUTES**

Confirmation of the minutes of the Audit and Risk Subcommittee meeting held on May 3, 2013.

### **AUDIT MANAGEMENT REPORT**

Receive and consider the report on the audit of Mackenzie District Council for the year ended June, 2014.

# **MACKENZIE DISTRICT COUNCIL**

## **MINUTES OF A MEETING OF THE AUDIT AND RISK SUBCOMMITTEE HELD IN THE COUNCIL CHAMBERS, FAIRLIE, ON FRIDAY 3 MAY 2013 AT 9:10AM**

### **PRESENT:**

Peter Maxwell (Chairman)  
Claire Barlow (Mayor)  
Cr Graham Smith

### **IN ATTENDANCE:**

Wayne Barnett (Chief Executive Officer)  
Toni Morrison (Senior Planner)  
Paul Morris (Manager – Finance and Administration)  
Julie Hadfield (Executive Support)

Mr Morris – Manager Finance and Administration, began the meeting by stating the intro to the Plan will be fleshed out with the \$200k reduction in revenue, average rate rises, UAGC tourism of \$10 increase and fixed charge for roading to spread load evenly start amalgamated roading reserve. Mr Morris said the key projects – Include the High Court decision and PC13 wording will be fleshed out into both the Plan and the summary document and Mr Morris will add rates table page to the Summary also. Mr Morris said some words around water in Twizel to be added in introduction and also Alps 2 Ocean wording to be added.

Mr Morris continued on to say The Tekapo Development section is okay as well as the District Plan section and point out that Council is going ahead with the plan laid out in the LTP.

The group agreed once all changes are made, it will make a better document.

Resolved: that subject to the changes being made as discussed, the Mayor could have the final sign-off of the document.

**Peter Maxwell/ Graham Smith**

The following bullet points were also decided.

- Consultation period would be May 4<sup>th</sup> to June 5<sup>th</sup> 2013
- Submissions will be fed to Council as received.
- Hearing date was decided to be June 13<sup>th</sup> 2013
- Incorporate any changes made based on submissions in the period between the hearing and 30 June 2013
- Have a meeting close to the end of June 2013 to adopt the final Annual plan.

Cr Maxwell thanked everyone for their efforts and not to take any criticism made, personally.

**THE CHAIRMAN DECLARED THE MEETING CLOSED AT 9:22AM**

**CHAIRMAN:** \_\_\_\_\_

**DATE:** \_\_\_\_\_

## **MACKENZIE DISTRICT COUNCIL**

**REPORT TO:** AUDIT AND RISK COMMITTEE  
**SUBJECT:** MANAGEMENT REPORT FROM AUDIT NZ  
**MEETING DATE:** 3 FEBRUARY 2015  
**REF:** FIN 1/2/3  
**FROM:** MANAGER – FINANCE AND ADMINISTRATION  
**ENDORSED BY:** CHIEF EXECUTIVE OFFICER

### **PURPOSE OF REPORT:**

For Council to receive and consider the “;Report to the Council on the Audit of Mackenzie District Council” from Audit New Zealand.

### **STAFF RECOMMENDATIONS:**

1. That the report be received.

**PAUL MORRIS**  
**MANAGER – FINANCE & ADMINISTRATION**

**WAYNE BARNETT**  
**CHIEF EXECUTIVE OFFICER**

Report to the Council on the audit of  
**Mackenzie District Council**  
for the year ended 30 June 2014

# **Management report**

## Key messages

We have completed the audit for the year ended 30 June 2014. The purpose of this report is to inform the Council of the key findings and recommendations from our audit.

## Audit opinion

We issued an unmodified audit opinion on the financial statements and statement of service performance for the year ended 30 June 2014.

## Key findings

Findings we found in our audit include:

Area	Results from our audit	Ref
Control environment	<p>We found that:</p> <ul style="list-style-type: none"> <li>The District Council has a number of informal policies in place and/or no policies covering specific aspects of its operations. These include a lack of formal policies for procurement and risk management.</li> <li>Journals raised by the financial accountant are not being reviewed by a superior officer.</li> <li>There is a lack of reconciliation and supporting schedules for key general ledger balances.</li> </ul> <p>In response, we performed additional audit procedures to address these control weaknesses. We recommend that the District Council should address these weaknesses to improve its control environment.</p>	Page 5 in Section 2
The District Council's response to the Twizel service centre fraud	The finance team detected an irregularity through variance analysis. The investigation into this irregularity confirmed that a fraud had been committed against the District Council and that the review processes were correctly followed. We commend the District Council for taking action against the offender in accordance with its fraud policy.	Page 13 in Appendix 1
Vehicle not registered in the name of the District Council	All vehicles purchased should be registered in the name of the District Council.	Page 13 in Appendix 1
Funds not accounted for	The District Council should reconcile all cash and cash equivalents to third party confirmations to ensure the accuracy and completeness of balances reported in the financial statements.	Page 13 in Appendix 1

Area	Results from our audit	Ref
Legislation	<p>The District Council satisfied the requirements of the increased annual reporting disclosure requirements set out in the Local Government (Financial Reporting and Prudence) Regulations 2014, which applied for the first time in 2014 Annual Report.</p> <p>However, two legislative breaches of the Local Government Act 2002 in the preparation and publishing of its annual plan for 2014/15 were identified. These were:</p> <ul style="list-style-type: none"> <li>• The Annual Plan which was adopted on 10 June 2014 was not made publicly available within one month of adopting the annual plan.</li> <li>• A copy was not sent to the Auditor-General or the Parliamentary Library.</li> </ul>	Page 12 in Appendix 1

### **The Council's responsibility for risk overview and monitoring**

The Council has an informal process which allows for the communication of risks. We recommend that in fulfilling its governance role, the Council should have a structured overview of risks, and a framework for monitoring how key risks are being managed.

### **Function of the Audit and Risk Committee**

The Council's Audit and Risk Committee has not met since its last meeting in May 2013. We recommend that the Audit and Risk Committee should meet on a more regular basis.

### **Status of prior year recommendations**

The District Council has cleared a number of prior year audit recommendations. However, many remain in progress or not being implemented. These recommendations have been outstanding for several years now. Refer to Appendix 2 for details.

The District Council must put in an effort to implement the outstanding recommendations if it wants to improve its control environment and reduce the risks of fraud, errors, and poor oversight of service performance reporting during the year.

### **Thank you**

We would like to thank the Council and management for the considerable assistance provided to us during our audit visit.



Julian Tan  
Audit Director  
13 January 2015



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# 1 Our audit opinion

## 1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 31 October 2014. This means that we were satisfied that the financial statements and statement of service performance fairly reflected 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.

## 1.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions.

All significant misstatements have been discussed with management and corrected in the final signed financial statements and statement of service performance.

We are satisfied that misstatements not corrected are individually and collectively immaterial.

# 2 Your business risks/issues and our audit response

The table below sets out the business risks and issues that we have identified and advised to the District Council in our audit arrangements letter. The left-hand column describes these risks and issues. In the right-hand column, we describe our findings based on the audit work performed.

Your business risk/issue	Results from our audit response
<b>Control environment</b>	
<p>The control environment reflects how well the District Council is managed in terms of achieving its objectives. It includes such areas as control consciousness and control mechanisms, at all levels of management. The stronger the control environment, the greater the likelihood that specific controls will be operating as desired.</p> <p>A key feature of the District Council is that its small size means that resourcing is a major operational issue, and segregation of duties is more difficult to achieve. While the District Council has addressed the continuity of function by having staff trained as back-up for key roles, this can create a segregation of duties risk. Therefore, the implementation by the District Council of regular independent reviews of internal controls is important. This process should be overseen by the audit and risk committee as part of its review of internal controls and</p>	<p>From our tests of controls, we noted the following:</p> <ul style="list-style-type: none"> <li>• The District Council has a number of informal policies in place and/or no policies covering specific aspects of its operations. These include a lack of formal policies over procurement and risk management.</li> <li>• Journals raised by the financial accountant are not being reviewed.</li> <li>• There is a lack of reconciliation and supporting schedules for key general ledger balances.</li> </ul> <p>We performed additional audit procedures in response to these weaknesses. While we found no further issues from this additional work, we recommend the District Council should address these weaknesses to strengthen its control environment. An enhanced control environment reduces the risk</p>

Your business risk/issue	Results from our audit response
areas susceptible to fraud.	of fraud and errors. It gives the Council and management a greater degree of assurance that their governance and stewardship obligations are being achieved.
<b>Capital projects and development</b>	
<p>The District Council has a number of significant on-going capital projects and developments including the Twizel drinking water upgrades and the Tekapo lakeside development.</p> <p>The District Council also has a number of capital maintenance projects.</p>	<p>The Twizel drinking water upgrade is currently in the planning and design phase. Physical works are scheduled to begin in the 2014/15 financial year.</p> <p>There has been no significant movement on the Tekapo Lakeside development. The District Council expected to sell property at the Tekapo Village Centre amounting to \$2,464,000. This did not occur during the year due to delays in obtaining consents.</p> <p>We will perform a status follow-up in the 2015 audit and perform any necessary procedures where needed.</p>
<b>Accounting for, and revaluation of, property, plant and equipment (PPE)</b>	
<p><b>Accounting</b></p> <p>Property, plant and equipment (PPE) comprise the largest single category of items on the District Council's balance sheet and represents the most substantial investment of the District Council's funds, services and activities. The integrity of underlying information and schedules and their proper accounting treatment is essential to the overall accuracy of the District Council's financial statements and in determining the level of rates set.</p> <p><b>Revaluation</b></p> <p>A revaluation of the District Council's infrastructural assets and properties as at 1 July 2013 was completed in February 2014. Management is using the information to update its fixed assets register and assets records.</p> <p>Where a class of assets is not subject to a revaluation in the current financial year, an assessment is required to confirm that the carrying value is not materially different from its fair value. It is important that you make this assessment at an early stage, to avoid the risk of this becoming a significant issue at a late stage of the audit.</p>	<p><b>Accounting and revaluation</b></p> <p>A revaluation of the District Council's infrastructural assets and properties as at 1 July 2013 was completed in February 2014 and resulted in an increase in the District Council's PPE by \$21.3 million.</p> <p>We have reviewed the assessment and the accounting treatment of the revaluation and gained assurance the revaluation is accurate and the accounting treatment is appropriate.</p> <p>However, the fair value assessment should include an inflation factor relating to the year of the valuation report. This applies where the valuation is conducted as at 1 July and takes account of any inflationary movements to 30 June, the reporting date which is 12 months later.</p>

Your business risk/issue	Results from our audit response
<p><b>Impairment assessment</b></p> <p>Another important element that the District Council must consider is whether there has been any impairment to any of its property, plant and equipment in the last 12 months. We expect that this assessment will also be made at an early stage, to avoid the risk of this becoming a significant issue at a late stage of the audit.</p> <p>The impact of any errors in PPE can have a potentially significant impact on the assets reported and any related expenses (and by implication an impact on the rates set).</p>	<p><b>Impairment assessment</b></p> <p>We are satisfied that there was no impairment that needed to be recorded in the financial statements.</p>
<b>Service performance reporting</b>	
<p>There continues to be a strong sector-wide focus on the quality of service performance reporting. Our audit will assess whether the performance measures in the annual report provide an adequate basis for an informed assessment of the District Council's actual service performance. Specifically, the audit opinion on the service performance report will report on:</p> <ul style="list-style-type: none"> <li>• whether the annual report reflects the District Council's performance for the year according to the existing measures in the adopted 2012-2022 LTP;</li> <li>• the District Council's compliance with generally accepted accounting practice; and</li> <li>• whether the service performance report fairly reflects actual service performance for the year.</li> </ul>	<p>There were several weaknesses identified in discussions with senior management around the way the Statement of Service Performance is compiled.</p> <p>There is no regular reporting to the Council. The long-term plan sets out the District Council's commitment to report service performance information to Elected Members on a six- monthly basis in September and March of each financial year.</p> <p>There is no formal quality assurance or review process for these measures.</p> <p>Despite the above, for annual reporting purposes, we confirm that the performance measures in the annual report provided an appropriate basis for an informed assessment of the District Council's actual service performance, and that the service performance report fairly reflected its service performance during the year.</p>

## 2.1 Other area of interest for all local authorities

Your business/issue	Results from our audit response
<b>Risk management arrangements (including policies and procedures)</b>	
<p>Management is aware of, and discuss the key risks facing District Council at an operational level, and when required, these risks and mitigating actions are communicated to the Council. While this informal process allows for the communication of risks, it is important that</p>	<p>The District Council has an informal process which allows for the communication of risks.</p> <p>We recommend that in fulfilling its governance role, the Council should have a structured overview of risks, and a framework for monitoring how key risks are being managed.</p>

Your business/issue	Results from our audit response
the Council, in fulfilling its governance role, has a structured overview of risks, and a framework for monitoring how key risks are being managed.	
<b>Role of the audit and risk committee</b>	
<p>We understand that in 2013 the District Council was reviewing its committee structure including:</p> <ul style="list-style-type: none"> <li>• Exploring for ways to improve the effectiveness of the audit and risk committee.</li> <li>• Considering bringing all matters discussed at committee level to the full Council meeting.</li> <li>• Considering setting up a strategy and planning committee so that the Council is able to focus on the high-level issues and concerns that affect the District Council.</li> </ul>	<p>The Council's Audit and Risk Committee has not met since its last meeting in May 2013. We recommend that the Audit and Risk Committee should meet on a more regular basis.</p> <p>We refer the Council to the OAG's publication on public sector audit committees. The publication would enable the Audit and Risk Committee to gain a working knowledge on the practical ways that contribute to an effective audit committee. The publication is available at:</p> <p><a href="http://www.oag.govt.nz/2008/audit-committees">http://www.oag.govt.nz/2008/audit-committees</a></p>
<b>Asset management plans</b>	
<p>Asset management plans (AMPs) play an integral part in the maintenance of the District Council's significant infrastructure assets. These assets deliver most of the quality-of-life services that are critical to the community.</p> <p>As part of the next LTP round, the Office of the Auditor General has indicated that there will be a focus on the quality of the underlying asset management plans (AMPs). The AMPs are a fundamental building block of the LTP and therefore the quality of these plans has a strong correlation to the reliability of the financial and non-financial information in the LTP.</p> <p>During the last LTP audit we reviewed the AMPs and provided feedback on these. We also highlighted during our prior year audit a few areas for improvement such as the landfill aftercare provision, and the potential to extend this include community facilities.</p> <p>The District Council also needs to ensure that the timetables outlined in the improvement plan are aligned to the 2015-2025 LTP timetable.</p>	<p>We will review the asset management plans as part of the audit of the 2015–2025 Long-Term Plan.</p>

Your business/issue	Results from our audit response
<b>Changes to accounting standards</b>	
<p>The District Council is required to transition to the new public benefit entity accounting standards framework in preparing its 30 June 2015 financial statements.</p> <p>To ensure a smooth transition to the new standards, the District Council will need to plan and prepare in a timely manner for the transition to the new PBE accounting standards. This planning and preparation includes:</p> <ul style="list-style-type: none"> <li>• Determining the reporting tier of the District Council.</li> <li>• Becoming familiar with the new standards and assessing the differences that may have a recognition, measurement, or disclosure effect on the District Council's financial statements.</li> <li>• Preparing an opening balance sheet and restating comparatives.</li> <li>• Determining any required system changes to comply with the new standards.</li> </ul> <p>We generally expect the audit of the opening balance sheet and restated comparatives under the new standards will be performed as an integral part of the audit of the first financial statements prepared under the new standards. However, some entities may want this work completed earlier due to potential significant issues or other reasons.</p>	<p>We will review this as part of the audit of the 2015 audit.</p>
<b>Preparation for the 2015-2025 Long Term Plan</b>	
<p>Following introduction of the Local Government Amendment Bill (No 3), the key areas of audit focus that we would like to have early engagement with the District Council on regarding preparation of the 2015-2025 LTP are:</p> <ul style="list-style-type: none"> <li>• Infrastructure strategy – this will potentially be a new requirement in the 2015-2025 LTP. The infrastructure strategy covers a period of 30 years and should underpin the District Council's asset base and provide early warning of</li> </ul>	<p>We will review these matters as part of the audit of the 2015–2025 Long-Term Plan.</p>

Your business/issue	Results from our audit response
<p>investment gaps or risky levels of infrastructure expenditure. This strategy must cover three waters, flood protection and roads and footpaths.</p> <ul style="list-style-type: none"> <li>• Performance reporting – the District Council made significant improvement to its performance framework during the 2012- 2022 LTP. While this will provide a sound basis for the 2015- 2025 LTP, the District Council should consider whether its key performance measures remain appropriate or if better alignment to service delivery is required.</li> <li>• Consultation arrangements – while the aim of the Local Government Amendment Bill (No 3) is to streamline consultation arrangements, the District Council will need to ensure it fully understands the impact of these changes and the effect it will have on the consultation process to ensure effective engagement.</li> <li>• Strategic decisions that the District Council has made that will have an impact on the LTP.</li> <li>• The District Council's overall project plan for the preparation of the LTP.</li> </ul>	

### 3 Additional findings from the current year's audit

Additional findings and recommendations from our current year's audit are set out in Appendix 1. These include:

- Compliance with significant legislation.
- Council's response to the Twizel service centre fraud.
- Vehicle not registered.
- Funds not accounted for in the financial statements.
- Mileage included in remuneration paid to elected representatives.
- Intangible assets include an impairment amount of carbon credits which has been carried forward from the previous year.

#### **4 Status of previous audit recommendations**

The status of each matter that was outstanding in last year's report to the Council is summarised in Appendix 2.

The District Council has fully addressed eight of the prior year recommendations (either in full or in part).

The District Council must make an effort and commit resources to implement all of the outstanding 12 recommendations if it wants to improve its control environment.

#### **5 Explanation of our priority ranking system**

An explanation of our priority ranking system for recommendations raised in the current and prior years' audits are set out in Appendix 3.

#### **6 Mandatory disclosures**

The mandatory disclosures for this audit are disclosed in Appendix 4.



## Appendix 1: Additional findings from the current year's audit

Findings	Recommendation	Management comments	Priority
<b>Compliance with significant legislation</b>			
<p>The District Council is responsible for ensuring that it has appropriate systems, policies, and procedures to comply with all relevant legislative, regulatory, and contractual requirements that apply to the activities and functions of the District Council.</p> <p>In regards to financial reporting, our audit has highlighted that the District Council has successfully satisfied the requirements of the increased annual reporting disclosure requirements set out in the Local Government (Financial Reporting and Prudence) Regulations 2014, which applied for the first time in 2014 Annual Report.</p> <p>However, two breaches of the Local Government Act 2002 were identified in the preparation and publishing of its annual plan for 2014/15. These were:</p> <ul style="list-style-type: none"> <li>• The Annual Plan which was adopted on 10 June 2014 was not made publicly available within one month of adopting the annual plan.</li> <li>• A copy was not sent to the Auditor-General or the Parliamentary Library.</li> </ul>	<p>We recommend that processes are put in place that will ensure that these requirements are met as part of the annual plan process.</p>	<p>Agreed. This was an oversight as staff immediately began preparing for the LTP 2015-2025 and the Annual Report 2014.</p>	<b>Necessary</b>

Findings	Recommendation	Management comments	Priority
<b>Council's response to the Twizel service centre fraud</b>			
<p>We were advised in May 2014 about a fraud at the Twizel service centre for an amount of approximately \$3,500.</p> <p>The fraud was an opportunistic theft, where a former District Council supervisor took advantage of new inexperienced staff members. The theft was detected through the finance team's variance analysis, followed by the appropriate follow-up with the relevant manager. This is indicative that the District Council's review processes were correctly followed enabling it to detect the irregularity and follow up with an investigation which confirmed the fraud being perpetrated against the District Council.</p>	<p>N/A.</p> <p>We commend the District Council for taking the right action in investigating and reporting this matter to the Police.</p>	N/A	N/A
<b>Vehicle not registered</b>			
<p>The Council purchased a Nissan Navara from South Canterbury Rural Fire.</p> <p>We noted that the vehicle is still registered in the name of South Canterbury Rural Fire</p>	<p>The District Council must ensure that assets purchased are registered in the name of the Council.</p>	Noted.	<b>Necessary</b>
<b>Funds not accounted for</b>			
<p>We have noted that there are additional funds which relate to the Pukaki Airport Board and held by Galloway Cook Allan that have not been accounted for in the financial statements.</p>	<p>The District Council should reconcile all cash and cash equivalents to third party confirmations to ensure the accuracy and completeness of balances reported in the financial statements.</p>	<p><i>Noted. However this stems from the Finance team not being involved in the Airport Board's finances. We would have expected these balances to be picked up by the Airport Board's accountant. As any correspondence from Galloway</i></p>	<b>Necessary</b>

Findings	Recommendation	Management comments	Priority
		<i>Cook is addressed to the Airport Board. Management will review administration structure for Pukaki Airport Board.</i>	
<b>No fixed asset policy</b>			
The District Council does not have a fixed asset policy that sets out formal processes for asset additions and disposals.	The District Council should adopt a fixed asset policy to manage the process relating to asset additions and disposals.	<i>Noted. We will investigate the implementation of such a policy before 30 June 2015.</i>	<b>Necessary</b>
<b>Financial reporting recommendations</b>			
<p>We include below the following financial reporting recommendations for improvements which we identified during the course of the audit:</p> <ul style="list-style-type: none"> <li>• Remuneration paid to elected representatives (Note 24) includes mileage paid. Mileage paid is a reimbursement, and should not be included in the remuneration.</li> <li>• Intangible assets (Note 15) include an impairment amount of carbon credits which has been carried forward from the previous year. As the value of these carbon credits is based on market price in an active market, this provides the best indicator of fair value and therefore, no reason for a separate impairment provision to be recognised. While the above does not require an adjustment to the carrying value of the</li> </ul>	<p>Mileage reimbursements paid should not be included as part of the elected representatives remuneration.</p> <p>We recommend amending the carbon credit policy (Note 1) so that it reflects the correct practice. The value of the carried forward amount is \$81k as at 30 June 2014.</p>	<p><i>Our treatment reflects Audit NZ requirement of the prior four years. We will amend for 2015.</i></p> <p><i>Noted. Will adjust for 2015.</i></p>	<b>Necessary</b>

Findings	Recommendation	Management comments	Priority
<p>carbon credits, the disclosure is not correct.</p> <p>These reporting points have been communicated to management during the course of the audit. Both points are not material, and as such have not affected our audit opinion.</p>			

## Appendix 2: Status of previous audit recommendations

### Summary of action taken against previous audit recommendations:

Number of recommendations from the previous year audits	Current status	Comments
8	Matters that have been resolved.	
3	Progress is being made, but not yet fully resolved.	Two are considered necessary; one considered beneficial.
12	No progress has been made.	Two are considered urgent; three are considered necessary; seven are considered beneficial.

### Matters resolved

Recommendation	Previous management report comments.	Current status
<b>Authorisation of purchase orders</b>		
Purchase orders should be authorised by staff with delegated authority.	<i>Agreed. The Creditors Officer will ensure appropriate sign-offs are on each purchase order.</i>	Purchase orders are signed within appropriate delegations. In practice purchase orders are rarely used.
<b>Approval for revenue invoices</b>		
The raising of invoices is to be approved by a staff member with delegated authority. The staff member should sign the invoice request report as evidence of authorisation.	<i>Agreed. The size of the Council means that all staff need to raise invoices. The solution is to amend the delegations manual to reflect current practice.</i>	Based on our testing, we have confirmed invoice request forms are appropriately approved.
<b>Review of credit notes</b>		
Implement procedures to periodically review all credit notes raised for appropriate authorisation and documentation.	<i>Agreed. Implemented. Manager Finance &amp; Administration reviews credit notes on a monthly basis.</i>	Credit notes are being subsequently reviewed by the Finance and Administration Manager.
<b>Independent review of NZTA claims</b>		
Independent review of NZTA claims to be performed prior to submission to NZTA.	<i>Agreed. An independent review has been implemented.</i>	NZTA claim is completed by the Roding Manager and reviewed by the Asset Manager.

Recommendation	Previous management report comments.	Current status
<b>Timesheet authorisation</b>		
Ensure timesheets have been appropriately authorised before processing.	<i>Noted. Timesheets will be appropriately authorised.</i>	Based on our review, timesheets are appropriately authorised before processing.
<b>Suspense accounts</b>		
Clearing suspense accounts to be completed on a regular basis.	<i>Agreed. These will be undertaken monthly.</i>	Suspense accounts are being reconciled on a monthly basis.
<b>Cut-off procedures</b>		
Financial reporting process: Review cut-off of revenue, expenditure and payroll prior to drafting annual report so that transactions to balance date are not incorrectly updated post balance date transactions.	<i>No comment included.</i>	Have reviewed cut-off testing. Processes are assessed as design effective in preventing a material error.  Testing provided assurance that transactions were recorded in the correct accounting period.
<b>Annual plan – legislative compliance</b>		
<p>From our review of the 2013/14 annual plan we noted the following breaches of legislation:</p> <ul style="list-style-type: none"> <li>• The Whole of Council Funding Impact Statement format was inconsistent with Form 3 of the Local Government Financial Regulations 2011.</li> <li>• The 2013/14 Annual Plan was adopted on 13 June 2013. However, it was not publicly available within one month of adoption.</li> </ul>	<i>Noted. We will endeavour to correct the above points for the next Annual Plan.</i>	<p>The 2014/15 annual plan was available on the website by 31 July 2014.</p> <p>The Whole of Council Funding impact statement was completed under the new template required by the Local Government (Financial Reporting and Prudence Regulations) 2014.</p> <p>We bring to Council's attention that the format also requires additional information to be included at the bottom of the FIS. The District Council has included this information in other sections of the Annual Plan. This is considered a technical breach. We recommend that the Council should consider revising the format of the Annual Plan going forward to ensure full compliance with legislation.</p>

### Progress is being made, but not yet fully resolved

Recommendation	Previous management report comments.	Current status	Management's proposed action
<b>Independent review of creditors' masterfile changes</b>			
Independent review of creditors' master file should be evidenced on the maintenance report.	<i>We have changed our processes to ensure the maintenance reviewer signs the maintenance changes.</i>	<b>Necessary</b> Report is being reviewed by the Accountant. However, the accountant has access to make changes to the masterfile. While we have gained assurance there were no issues with self-review in the 2014 year, this matter will remain open.	<i>We will remove the Accountant's ability to change the Masterfile.</i>
<b>Signing invoices within delegated authority</b>			
Ensure all invoices are signed off within delegated authority.	<i>We will review the delegations in the manual to ensure consistency. We have also implemented a process whereby the Creditors clerk will review invoices before they are entered into the creditor's ledger against the delegations manual to ensure compliance.</i>	<b>Necessary</b> Based on our compliance testing we identified a manager who had signed above their delegation level. On enquiry, we identified that the expenditure had been approved on a Board level. We therefore accept this as reasonable. We recommend the delegations manual is reviewed to provide clarity and ensure delegations limits are consistent with Council expectations.	<i>Noted. We will be undertaking a review of the delegations manual and address the issue at that point.</i>
<b>Reconciliation of rates revenue</b>			
Prepare a reconciliation of rates revenue between the rating system and the general ledger.	<i>No comment included.</i>	<b>Beneficial</b> No reconciliation was initially prepared to reconcile the rating system to the general ledger. A reconciliation was prepared upon	<i>Noted. This will be prepared on a more timely basis.</i>

Recommendation	Previous management report comments.	Current status	Management's proposed action
		<p>request.</p> <p>We recommend that reconciliations of rates revenue between the rating system and the general ledger are prepared on a regular basis.</p>	<p><i>This was delayed due to time constraints.</i></p>



## No progress has been made

Recommendation	Previous management report comments.	Current status	Management's proposed action
<b>Review of journals</b>			
Journals should be independently reviewed.	<i>No comment provided</i>	<b>Urgent</b> Journals are not reviewed.	<i>Only the accountant journals are not reviewed. It is not necessary for all of these journals to be reviewed due skill levels and qualifications. Finance and Admin Manager will review a sample of journals on a periodic basis.</i>
<b>Review of system access</b>			
Periodic review of system access: The independent reviewers of payments and other finance functions should not have access to make changes in the system.	<i>We have removed the Accountant's ability to maintain the creditors. They now only review changes made by the Creditors Officer.</i>	<b>Urgent</b> The Accountant continues to have access to make changes to employee and creditor information.	<i>We have removed access.</i>
<b>Service performance reporting</b>			
The District Council should complete its six-monthly reporting of service performance information to the Council in accordance with its service performance reporting commitment outlined in its long term plan.	<i>We have implemented a reminder system to ensure these things are not missed in the future.</i>	<b>Necessary</b> Six monthly reporting to Council on SSP's was not completed.	
<b>Interests register</b>			
All interests in other entities are recorded in the District Council's interest register.	<i>Management have offered this to Council. There is a register available but the Council has decided to make its use voluntary. We will offer it to the new Council</i>	<b>Necessary</b> No interests register kept to ensure transparency of interests and meeting legislative requirements.	<i>Work is currently underway to establish a voluntary District Councillors interest register.</i>

Recommendation	Previous management report comments.	Current status	Management's proposed action
<b>Policy development</b>			
<p>Policy development: The District Council should develop and implement policies covering the following specific areas:</p> <ul style="list-style-type: none"> <li>• Organisation-wide procurement policy.</li> <li>• Sensitive expenditure policy for credit card use, travel, entertainment, food and beverages, and accommodation.</li> <li>• Risk assessment, including the development of a risk assessment scorecard to initiate discussions within the District Council.</li> </ul> <p>To facilitate timely reviews of policy we also recommended that a policy schedule is created to identify all policies, the date they were approved and the date they are due for review. This will provide a basis to communicate policies to staff and ensure policies remain current.</p>	<p>Council agrees with your recommendations in relation to policy development. Council will develop and implement:</p> <ul style="list-style-type: none"> <li>• an organisation-wide procurement policy; and</li> <li>• a sensitive expenditure policy.</li> </ul> <p>We propose to have these developed, adopted and in place prior to 30 June 2014.</p> <p>With regards to the risk assessment we have implemented a risk assessment score card.</p> <p>We have also implemented a policy schedule and this is being updated.</p>	<p><b>Necessary</b></p> <p>A procurement policy and sensitive expenditure policies have not been implemented, nor was a policy schedule.</p> <p>A risk scorecard was started, but is incomplete.</p>	<p>We still agree with your finding. However this is a resourcing issue. Council has recently appointed a Projects Manager and this will be on his list of tasks.</p> <p>We will complete the risk score card.</p>
<b>Revenue</b>			
<p>A formalised debt recovery policy be developed and distributed to the relevant staff members.</p>	<p>Agreed. We will review and implement a policy prior to 30 June 2014.</p>	<p><b>Beneficial</b></p> <p>Policy has not yet been implemented.</p>	<p>This has been moved to December 2015 due to LTP commitments.</p>
<b>Fair value assessment of property, plant and equipment</b>			
<p>Fair value assessment of property, plant and equipment.</p> <p>The fair value assessment should include an inflation factor relating to the year of the valuation report. This</p>	<p>No comment provided.</p>	<p><b>Beneficial</b></p> <p>No change from the previous year - infrastructure assets were revalued on 1 July 2013 and the fair values per</p>	<p>Agreed.</p>

<b>Recommendation</b>	<b>Previous management report comments.</b>	<b>Current status</b>	<b>Management's proposed action</b>
applies where the valuation is conducted as at 1 July and takes account of any inflationary movements to 30 June – the reporting date which is 12 months later.		the revaluation were reported at 30 June 2014.	
<b>Update the fixed asset register</b>			
Update the fixed asset register for assets that have been replaced during renewal work.	<i>No comment provided</i>	<b>Beneficial</b> No change from prior year.	We have engaged consultants to assist with our month end processes. One of their tasks will be to update fixed assets on a monthly basis.
<b>Stocktake of property, plant and equipment</b>			
Conduct a stocktake of property, plant and equipment, and reconcile this to the fixed asset register on a periodic basis.	<i>No comment provided</i>	<b>Beneficial</b> No change from prior year.	Agreed. Will be developed as part of the asset policy work.
<b>Disposal forms for property, plant and equipment</b>			
Appropriately approved disposal forms must be maintained in support of asset disposals.	<i>No comment provided</i>	<b>Beneficial</b> During the audit, disposal forms were not available to be provided.	Agreed.
<b>Review the landfill aftercare provision</b>			
Complete a formal assessment to calculate the actual value of the required landfill aftercare provision.  Compliance costs incurred for after care should then be subsequently deducted from the landfill provision.	<i>No comment provided</i>	<b>Beneficial</b> No change from the previous year.	This has been requested from the Asset Management team. This will be undertaken at the 2015 annual report

Recommendation	Previous management report comments.	Current status	Management's proposed action
<b>General ledger account reconciliations</b>			
Reconciliation of debtors, payroll and creditor accounts to be prepared in a timely manner and independently reviewed.	<i>Agreed these are now passed to the Accountant to review.</i>	<b>Beneficial</b> Identified examples of monthly reconciliations to the General Ledger not completed in a timely manner.	<i>Agreed. These are to now be undertaken monthly.</i>

## Appendix 3: Explanation of priority ranking system

We have developed rankings for our recommended improvements:

<b>Urgent</b> Major improvements required	<b>Needs to be addressed <i>urgently</i></b> 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 non-financial information]; a breach of significant legislation; or the risk of reputational harm.
<b>Necessary</b> Improvements are necessary	<b>Address at the earliest reasonable opportunity, <i>generally within 6 months</i></b> 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.
<b>Beneficial</b> Some improvement required	<b>Address, <i>generally within 6 to 12 months</i></b> 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 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 of the District Council 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 Council of their responsibilities.</p> <p>Our audit engagement letter 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 generally accepted audit 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 Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We confirm that, for the audit of the District Council's financial statements for the year ended 30 June 2014, 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 the audit, we have not provided any engagements for the District Council during the year ended 30 June 2014. In addition, we have no relationships 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 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 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>