

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

Date: Wednesday 24 February 2016
Time: 4.00 pm
Meeting Room: Council Chambers
Venue: Horowhenua District Council
Levin

Finance, Audit & Risk Subcommittee

OPEN AGENDA

MEMBERSHIP

Chairperson	Cr W E R Bishop	
Members	Mayor B J Duffy	
	Mr B J Jackson	
	Cr C B Mitchell	
	Cr A D Rush	
	Cr P Tukapua	
Reporting Officer	Mr D Law	(Group Manager – Finance)
Meeting Secretary	Mrs K J Corkill	

Contact Telephone: 06 366 0999
Postal Address: Private Bag 4002, Levin 5540
Email: enquiries@horowhenua.govt.nz
Website: www.horowhenua.govt.nz

Full Agendas are available on Council's website
www.horowhenua.govt.nz

Full Agendas are also available to be collected from:
Horowhenua District Council Service Centre, 126 Oxford Street, Levin
Foxton Service Centre/Library, Clyde Street, Foxton,
Shannon Service Centre/Library, Plimmer Terrace, Shannon
and Te Takere/Library, Bath Street, Levin

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	Notification to speak is required by 12 noon on the day of the meeting. Further information is available on www.horowhenua.govt.nz or by phoning 06 366 0999.	
3	Declarations of Interest	3
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	A Risk Management briefing by Nicki Brady, Senior Manager Business Services will be held at the conclusion of the meeting	
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Financial Report for the seven months to 31 January 2016

File No.: 16/63

1. Purpose

To present to the Finance, Audit & Risk Subcommittee the financial report for the six months to 31 January 2016.

2. Recommendation

- 2.1 That Report 16/63 on Financial Report for the seven months to 31 January 2016 be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Issues for Consideration

As included in the **attached** report.

Attachments



No.	Title	Page
A	Financial Reporting - Monthly Report - 31 January 2016	7

Confirmation of statutory compliance

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

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

Signatories

Author(s)	Tracey Whitehouse Management Accountant	
Approved by	Doug Law Group Manager - Finance	



Seven Month Report

01 July 2015 to 31 January 2016

This report is for the seven months ended 31 January 2016. Included in this report is an executive summary, organisation summary and financial statements.

Executive Summary

Operating deficit: \$1,007,000 less than budgeted deficit of \$1,314,000.

Activity revenue: above budget by \$761,000 with no major variance to report.

Activity expenditure: below budget by \$505,000 with no major variance to report.

The Forecast budget for 30 June 2016 is forecasting a surplus of \$1,072,000 at 30 June 2016 versus the Annual Budget of \$1,596,000.

Forecast Activity revenue: expected to be below budget by \$50K.

Forecast Activity expenditure: expected to be above budget by \$437K.

Sundry debtors: The total Outstanding Debtors have decreased in the month by \$20K. The total Outstanding Debtors is \$706K and have reduced by 34% since June 2015.

Major variances

	30 Jun 2015	31 January 2016	Variance
On charges	\$138,788	\$81,210	(\$57,578)
Development Contribution	\$353,371	\$87,582	(\$265,789)
90 day outstanding	\$639,089	\$453,584	(\$185,505)

Treasury: Our weighted average interest rate remained to 4.9% at January 2016, decreasing from 5.15% at June 15 and 5.35% at January 2015. This is a potential saving of \$354K of interest payable.

The LTP interest rate assumption for 2015/16 was 5.5%.

Doug Law

Group Manager Finance

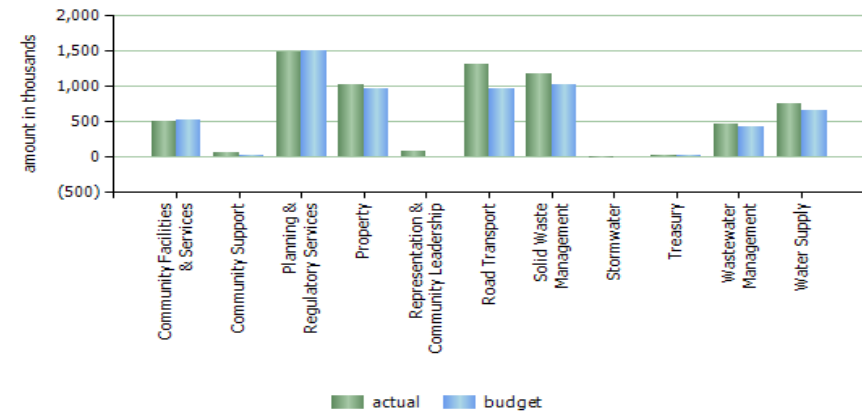
24 February 2016

Organisation Summary

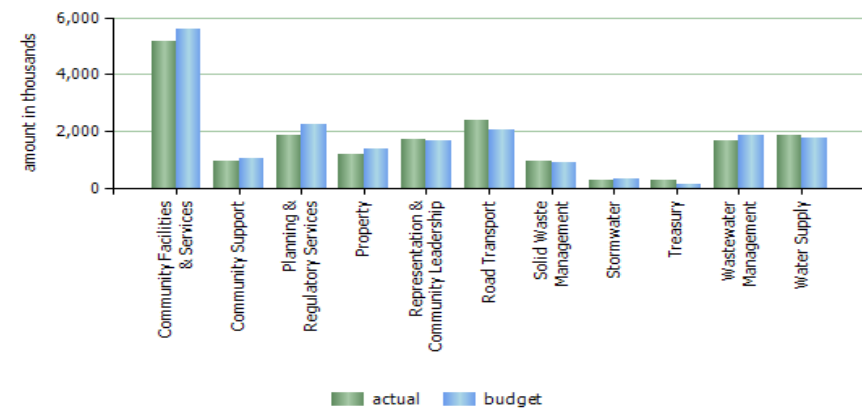
Financial operation

Operational revenue \$26.04 m 1% more than budget	Operational expenditure \$26.45 m 2% less than budget	Operational surplus/(deficit) (\$411) k 69% less than budget
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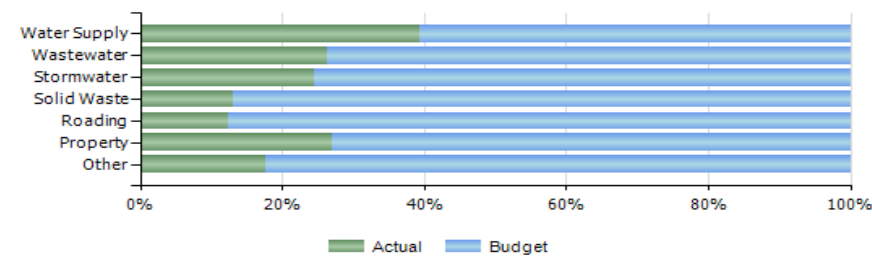
Operational revenue by activity



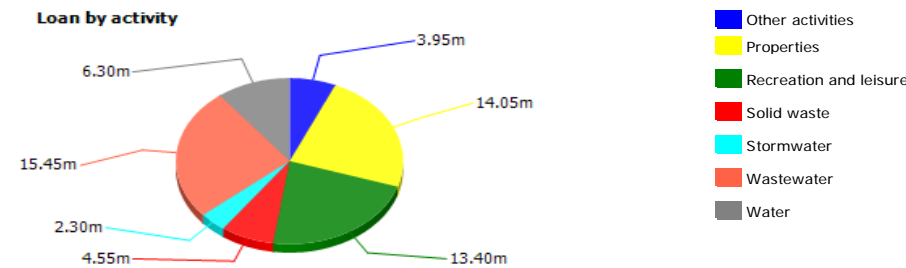
Operational expenditure by activity



Capital expenditure

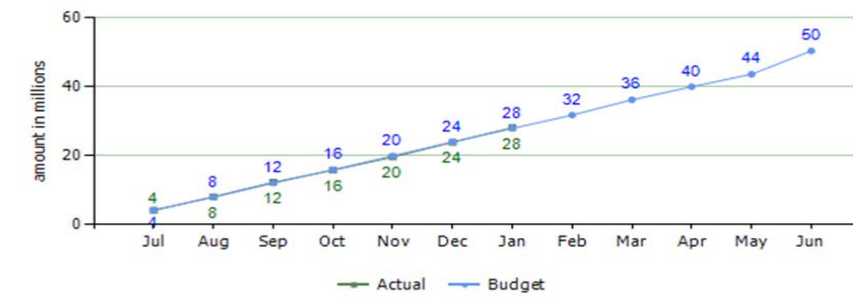


Loan by activity

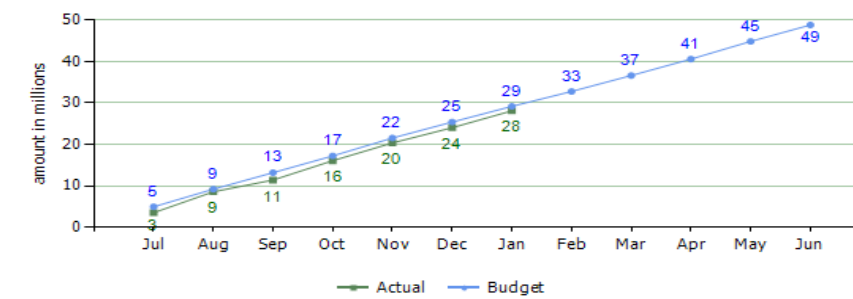


Financial trends

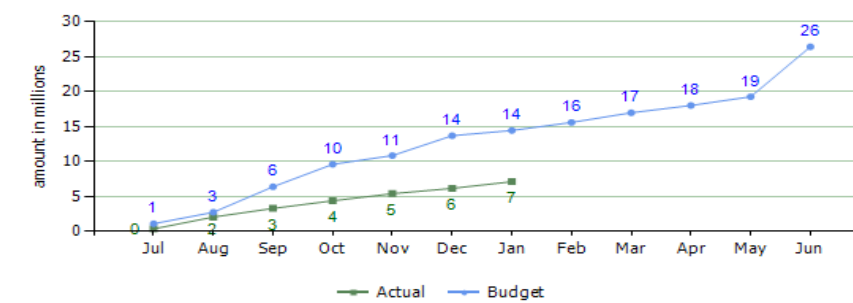
Revenue



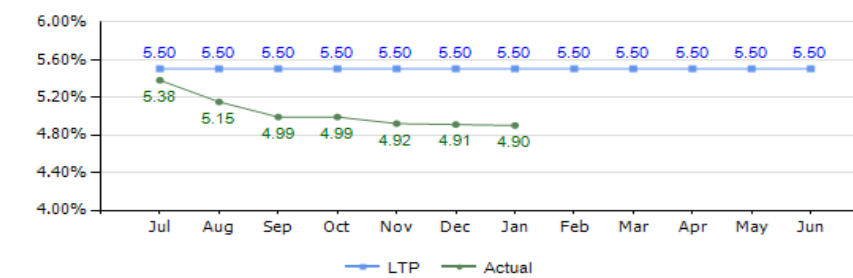
Expenditure



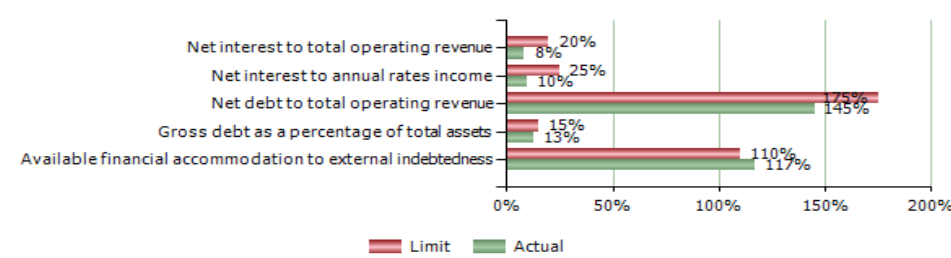
Capital expenditure



Interest rate movement



LGFA Covenant



Financial sustainability

Rates to operating revenue 71%

Rates revenue	\$18.46 m
Operating revenue	\$26.04 m

71% of operating revenue is derived from rates revenue

Fees and charges to operating revenue 26%

User fees and charges	\$6.83 m
Operating revenue	\$26.04 m

26% of operating revenue is derived from user fees and charges

Balance budget ratio 99%

Total revenue	\$27.90 m
Total expenditure	\$28.21 m

Revenue should be equal or more than expenditure. Year to date revenue is just over 1%

Debt affordability ratio 121%

Total borrowing	\$60.00 m
Total projected revenue	\$49.65 m

With the total borrowing of \$60m we are still under the set limit of 175% of projected revenue

Essential services ratio 105%

Capital expenditure	\$7.09 m
Depreciation	\$6.78 m

Capital expenditure should be equal or more than depreciation, for year to date capex is 105% more than depreciation.

Interest to rates revenue 8%

Interest paid	\$1.52 m
Rates revenue	\$18.46 m

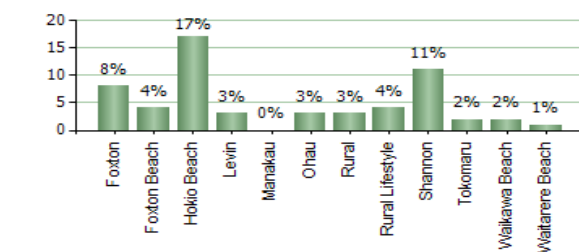
8% of rates revenue is paid in interest. Our set limit is 25% of total rates revenue.

Interest cover ratio 6%

Interest paid	\$1.52 m
Operating revenue	\$26.04 m

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

Rates debtors % with arrears



Statement of Income and Expenditure

Percentage of year completed: 58.34%	End of the year			Last year D	Year to date				% Actual to Annual Plan I = E/B	% total J = G/Tot B	Notes to accounts
	Projection A	Annual Plan B	Variance C = B - A		Actual E	Budget F	Variance in \$ G = F - E	Variance in % H = G/F			
Income											
Rates revenue											
General rates	8,223,698	8,223,698	0	4,544,437	4,810,264	4,797,158	13,106	-0.27%	58.49%	-0.03%	
Targeted Rates	23,338,441	23,338,441	0	12,724,609	13,646,558	13,614,094	32,464	-0.24%	58.47%	-0.07%	
Total	31,562,139	31,562,139	0	17,269,046	18,456,822	18,411,252	45,570	-0.25%	58.48%	-0.10%	
Treasury											
External interest received	150,000	150,000	0	99,888	85,768	87,500	(1,732)	1.98%	57.18%	0.00%	
Rates penalties	600,000	600,000	0	462,989	514,139	300,000	214,139	-71.38%	85.69%	-0.46%	
Total	750,000	750,000	0	562,877	599,907	387,500	212,407	-54.81%	79.99%	-0.46%	
Significant activity revenue											
Community Facilities & Services	873,930	888,876	(14,946)	453,566	498,352	522,155	(23,803)	4.56%	56.07%	0.05%	
Community Support	41,546	39,500	2,046	135,028	55,342	16,419	38,923	-237.06%	140.11%	-0.08%	
Planning & Regulatory Services	2,055,308	2,261,490	(206,182)	1,403,494	1,488,069	1,508,919	(20,850)	1.38%	65.80%	0.04%	
Property	1,603,297	1,637,289	(33,992)	1,062,178	1,011,186	954,211	56,975	-5.97%	61.76%	-0.12%	
Representation & Community	73,500	0	73,500	1,226	74,041	0	74,041	100.00%	100.00%	-0.16%	
Road Transport	1,667,000	1,667,000	0	794,027	1,304,708	970,840	333,868	-34.39%	78.27%	-0.72%	
Solid Waste Management	1,822,500	1,741,206	81,294	1,063,555	1,171,101	1,015,700	155,401	-15.30%	67.26%	-0.33%	
Stormwater	19,928	0	19,928	10,000	0	0	(0)	100.00%	100.00%	0.00%	
Treasury	6,430	6,000	430	0	6,430	6,000	430	-7.17%	107.17%	0.00%	
Wastewater Management	858,120	792,687	65,433	432,941	466,943	420,744	46,199	-10.98%	58.91%	-0.10%	
Water Supply	1,100,527	1,138,277	(37,750)	413,402	755,815	655,942	99,873	-15.23%	66.40%	-0.21%	
Total	10,122,086	10,172,325	(50,239)	5,769,417	6,831,985	6,070,930	761,055	-12.54%	67.16%	-1.64%	
Capital subsidies											
Capital subsidies and grants	3,968,241	3,968,241	0	285,701	153,885	900,246	(746,361)	82.91%	3.88%	1.61%	1
Total	3,968,241	3,968,241	0	285,701	153,885	900,246	(746,361)	82.91%	3.88%	1.61%	
Total operating income	46,402,466	46,452,755	(50,239)	23,887,041	26,042,599	25,769,928	272,671	-1.06%	56.06%	-0.59%	

Notes

1. Capital Subsidies are under budget for Roothing Transport as more operational work is being undertaken. This is forecasted to be in line with budget by 30 June 16 with work carried out in the summer months. The forecast includes \$2.2m funding expected for Te Awahou, currently \$375K has been received which is to yet be approved for release.

Statement of Income and Expenditure (continued...)

Percentage of year completed: 58.34%	End of the year			Last year	Year to date				% Actual to Annual Plan I = E/B	% Variance to total Annual Plan J = G/Tot B	Notes to accounts
	Projection	Annual Plan	Variance		Actual	Budget	Variance in \$	Variance in %			
	A	B	C = B - A		D	E	F	G = F - E			
Expenditure											
Significant activity expenditure											
Community Facilities & Services	8,668,582	8,895,839	168,337	3,076,058	5,173,298	5,587,906	414,608	7.42%	58.15%	0.91%	2
Community Support	1,747,546	1,844,331	83,289	2,437,512	954,652	1,077,279	122,627	11.38%	51.76%	0.27%	
Planning & Regulatory Services	3,433,147	3,689,688	256,541	2,434,731	1,886,024	2,166,081	280,057	12.93%	51.12%	0.62%	3
Property	1,475,336	1,446,381	(28,955)	1,464,468	932,663	1,055,319	122,656	11.62%	64.48%	0.27%	4
Representation & Community	2,943,996	2,804,429	(139,567)	1,594,433	1,736,389	1,690,440	(45,949)	-2.72%	61.92%	-0.10%	
Road Transport	3,658,586	3,499,830	(158,756)	1,988,175	2,411,178	2,038,694	(372,484)	-18.27%	68.89%	-0.82%	5
Solid Waste Management	1,726,236	1,682,182	(44,054)	786,150	955,162	929,400	(25,762)	-2.77%	56.78%	-0.06%	
Stormwater	548,258	545,164	(3,094)	271,461	294,328	337,792	43,464	12.87%	53.99%	0.10%	
Treasury	373,065	204,276	(168,789)	109,349	285,877	162,830	(123,047)	-75.57%	139.95%	-0.27%	6
Wastewater Management	3,172,579	3,052,852	(119,727)	1,891,437	1,655,966	1,864,208	208,242	11.17%	54.24%	0.46%	
Water Supply	3,227,818	2,894,405	(333,413)	1,568,132	1,868,578	1,749,253	(119,325)	-6.82%	64.56%	-0.26%	7
Total	30,966,145	30,559,377	(436,768)	17,621,906	18,154,114	18,659,202	505,088	2.71%	59.41%	1.11%	
Other expenses											
Depreciation and amortisation	11,618,741	11,618,746	5	7,345,634	6,775,090	6,777,596	2,506	0.04%	58.31%	0.01%	
External interest	2,990,000	3,191,827	201,827	1,522,037	1,524,188	1,647,697	123,509	7.50%	47.75%	0.27%	
Total	14,608,741	14,810,573	201,832	8,867,671	8,299,278	8,425,293	126,015	1.50%	56.04%	0.28%	
Total operating expenditure	45,574,886	45,177,798	(234,936)	26,489,577	26,453,392	27,084,495	631,103	2.33%	58.31%	1.39%	

Notes

- Community Facilities & Services is under budget with the new contractors. As a result of savings from the new contracts direct expenditure on this activity is forecasted to be \$250k below budget by 30 June 2016.
- Planning & Regulatory Services are under current budget with careful management of expenditure.
- Property is under current budget with the new contractors. As a result of savings from the new contracts direct expenditure on this activity is forecasted to be \$146k below budget by 30 June 2016.
- Road Transport has had a slight increase on subsidised expenditure with unbudgeted emergency works for repairs to roads due to slips and seal washouts. This is forecasted to impact on the total at 30 June 2016.
- Treasury is above budget with increased rates remissions than anticipated. This is forecasted to continue to 30 June 2016.
- Water Supply is slightly above budget with increase costs for Levin- Ohau water Consent Compliance and associated costs. This is forecasted to continue to 30 June 2016.

Statement of Income and Expenditure (continued...)

Percentage of year completed: 58.34%	End of the year			Year to date					% Actual to	% Variance	Notes to accounts
	Projection	Annual Plan	Variance	Last year	Actual	Budget	Variance in \$	Variance in %	Annual Plan	total Annual Plan	
	A	B	C = B - A	D	E	F	G = F - E	H = G/F	I = E/B	J = G/Tot B	
Non-operational costs											
Non operating income											
Internal interest income	2,999,385	3,600,046	(600,661)	1,816,463	1,756,312	2,100,027	(343,715)	16.37%	48.79%	100.00%	
Revaluation gains	218,037	321,664	(103,627)	0	79,288	0	79,288	100.00%	24.65%	100.00%	
Vested Assets	26,278	0	26,278	117,186	24,707	0	24,707	100.00%	100.00%	100.00%	
Development Contributions	0	0		109,786							
Total	3,243,700	3,921,710	(678,010)	2,043,435	1,860,307	2,100,027	(239,720)	11.42%	47.44%	100.00%	
Non operating expenditure											
Internal interest expense	2,999,385	3,600,046	600,661	1,816,463	1,756,312	2,100,027	343,714	16.37%	48.79%	100.00%	
Total	2,999,385	3,600,046	600,661	1,816,463	1,756,312	2,100,027	343,714	16.37%	48.79%	100.00%	
Total non-operational costs	244,315	321,664	(77,349)	226,972	103,996	0	103,995	0.00%	32.33%	100.00%	
Total surplus/(deficit)	1,071,895	1,596,621	(332,524)	(2,375,564)	(306,797)	(1,314,566)	1,007,769	76.66%	-21.85%		

Statement of Financial Position as at 31 January 2016

	Last year Actual \$000	YTD Actual \$000	Full year Budget \$000	Notes
Assets				
Current assets				
Cash and cash equivalents	7,856	3,184	6,358	
Debtors and other receivables	5,381	8,454	6,481	8
Other financial assets	470	0	10	
Assets held for sale	475	475	393	
Total current assets	14,182	12,113	13,242	
Non-current assets				
Operational assets	42,492	41,426	45,097	
Infrastructural assets	386,465	379,079	402,881	
Restricted assets	39,293	37,796	41,054	
intangible assets	1,680	1,634	1,672	
Forestry assets	911	911	680	
Investment property	5,706	5,706	3,946	
Investments in subsidiaries	988	1,088	1,099	
Other financial asset	803	803	1,059	
Total non-current assets	478,337	468,444	497,488	
Total assets	492,519	480,557	510,730	
Liabilities				
Current liabilities				
Creditors and other payables	8,070	8,532	8,439	
Borrowings	2,000	4,000	9,000	
Employee entitlements	1,003	502	585	
Provisions	997	997	1,003	
Total current liabilities	12,070	14,031	19,027	
Non-current liabilities				
Borrowings	58,000	56,000	67,000	
Employee entitlements	178	178	224	
Provisions	2,068	2,068	2,991	
Other	1,634	920	0	
Total non-current liabilities	61,880	59,166	70,215	
Total liabilities	73,950	73,197	89,242	
Net assets	418,570	407,360	421,488	
Equity				
Retained earnings	264,911	246,097	267,350	
Revaluation reserves	147,449	147,447	147,447	
Other reserves	6,210	13,815	6,691	
Total equity	418,570	407,360	421,488	

Notes

Debtors Summary		\$000	Notes
Debtors Sundry		706	a
Debtors Rates		5,679	b
Debtors Water		718	
Debtors Infringements		610	c
Debtors Other		741	d
8. Total Debtors		\$8,454	

- a. The Statement of Current Debtors breaks further breaks down Debtors Sundry.
- b. Debtors Rates includes \$2,637m of rates for instalment 3.
- c. Debtors Infringements includes outstanding Dogs, Parking and sundry infringement tickets issues that are due which have not yet been sent to Court for collection.
- d. Debtors Other includes Credit Balances of \$684k, Prepayments of \$168K, other sundry accruals \$160K and provision for Doubtful debt (\$988).

Statement of Capital Expenditure – Major Projects over \$50,000

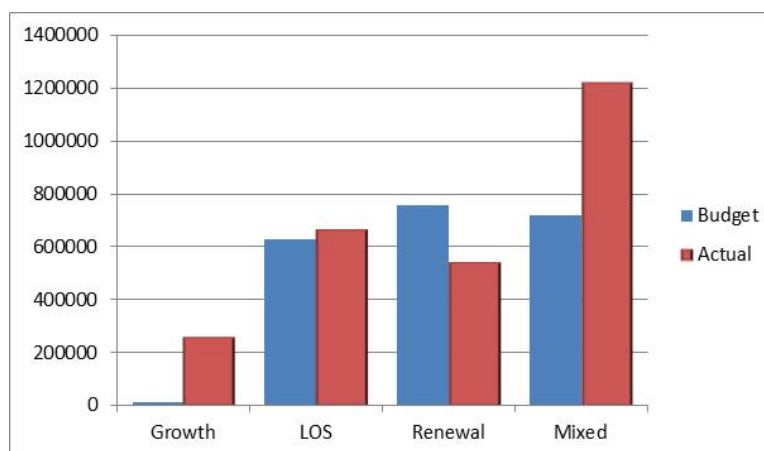
Reference	Description	LTP 2015/16	Project Cost YTD			Expected Start	Expected Completion	Comments
			Actual	YTD Budget	Variance			
Growth								
STW 27	Storm water - Development Planning North East Levin	150,000	27,733	7,500	-20,233	Oct-15	Jun-16	Initial planning is underway
WW 41	Waste water - Development Planning - North East Levin	260,980	0	260,980	260,980	Jul-15	Jun-16	
WW 44	Waste Water - Levin Tararua Industrial Development	125,000	5,520	0	-5,520	TBA	Jun-16	Initial planning is underway
SW 17	Landfill Development	385,237	99,270	385,237	285,967	Dec-15	Nov-15	Contract has been awarded and work underway
	Total Growth	921,217	132,522	653,717	521,195			
Level of Service								
WS 32	Water Supply -Levin Clarifier Installation	2,000,000	42,083	0	-42,083	Oct-15	Jun-16	This is now underway.
WS 38	Water Supply - Telemetry - District Wide	95,000	38,844	94,708	55,864	Oct-15	on going	Contract has been awarded, this project will flow into 2016/17(subject to confirmation of funding)
STW 14	Storm Water -Telemetry	81,000	82,186	80,766	-1,420	Sep-15	Mar-16	This is underway.
STW 15	Storm Water -Levin Queen Street	250,000	11,379	0	-11,379	Oct-15	Jun-16	Survey has been undertaken
STW 16	Storm Water -Stormwater Statergy	80,000	6,470	0	-6,470	Mar-16	Mar-16	
STW 19	Storm Water -Foxton Beach Catchment Management Plan	83,000	0	0	0	Jun-16	Jun-16	
WW 11	Foxton Wastewater Treatment Plant - Strategic Upgrade	2,326,000	551,806	2,326,000	1,774,194	Sep-15	Mar-16	
WW 27	Waste Water - Telemetry System	95,000	116,936	94,727	-22,209	Jul-15	Mar-16	
WW 37	Levin Wastewater Treatment Plant - Strategic Upgrade	610,000	59,965	0	-59,965	Sep-15	Jun-16	
WW 45	Waste Water - Shannon Disposal System	3,065,921	992,367	2,986,753	1,994,386	Aug-15	Feb-16	
RD 14	New Footpath	100,000	0	20,000	20,000	TBA	Jun-16	
RD 16	Foxton Townscape Main Street Upgrade	750,000	76,889	437,500	187,500	Sep-15	May-16	Initial design has been undertaken
RD 18	Waitarere Beach Kent Gloucester Upgrade	260,000	35,268	151,668	116,400	Jul-15	Jun-16	
SW 16	Landfill Consent	107,000	21,727	0	-21,727	Mar-16	May-16	
SW 18	Leachate pre treatment	129,000	0	0	0	Nov-15	Mar-16	
SW 19	Levin Landfill Energy Recovery / Flare	200,000	0	0	0	TBA	Jun-16	
PR 11	Thompson House Interior refurbishment, including kitchen (with renewal contribution from Thompson House)	80,000	0	80,000	80,000	Oct-15	Mar-15	Design in progress, construction drawings being developed to go out to tender
PR 12	Thompson House Exterior Fire Escape, egress improvements and disability access including toilet provision	80,000	6,050	80,000	73,950	Jan-16	Jun-15	Design in progress, construction drawings being developed to go out to tender
PR 17	Upgrade ablutions block Donnelly Park	60,000	0	60,000	60,000	Feb-16	Mar-16	Works programmed to commence 23 February 2016

Statement of Capital Expenditure – Major Projects (continued...)

Reference	Description	LTP 2015/16	Project Cost YTD			Expected Start	Expected Completion	Comments
			Actual	YTD Budget	Variance			
PR 19	Shannon Memorial Hall - accesbile facility's upgrade (toilet block and entrance)	50,000	0	50,000	50,000	TBA	TBA	Dependent on strategic review of facilities. Suggest carry-over to next year.
PR 41	Public Toilets-Salisbury Street upgrade, Reroof, renew flooring, change doors	54,530	0	54,530	54,530	Apr-16	TBA	New toilet block at Waitarere Domain, works to commence April 2016 after busy summer use of site
BEAUT 1	Flag Trax	54,270	41,950	54,270	12,320	Nov-15	Feb-16	Flagtrax systems have successfully been installed in Levin and Foxton and are currently being utilised by a community organisation.
CA 12	General Network Modelling	100,000	43,970	77,777	33,807	Jul-15	Mar-16	
CA 16	Purchase of Urban Aerial Imagery	60,000	0	30,090	30,090	Dec-15	TBA	
	Total Level of Service	10,770,721	2,127,891	6,678,789	4,377,787			
	Renewal							
WS 11	Levin Reticulation- RENEWAL	1,061,000	474,706	448,527	-26,179	Jul-15	Jun-16	This is on track.
WS 15	Shannon - Mangaore Reticulation- RENEWAL	158,000	151,443	158,000	6,558	Jul-15	Jun-16	This is on track.
WS 19	Foxton Beach Edingburg Terrace Bore- RENEWAL	150,000	9,005	0	-9,005	Apr-16	Apr-16	
WS 28	Levin Treatment Plant - Renewals	50,000	21,897	0	-21,897	TBA	Jun-16	Initial planning has been undertaken
WS 39	Reactive renewals - District Wide	150,000	97,931	0	-97,931	Jul-15	Jun-16	On going through the year
WS 45	Shannon Reservoir structural work	100,000	0	0	0	Feb-16	Jun-16	This is on track.
STW 12	District Wide Reticulation - Unplanned Renewals	50,000	41,296	0	-41,296	TBA	Jun-16	
STW 13	District Wide Pump Station - Planned Renewals	79,350	2,300	0	-2,300	Feb-16	Feb-16	
WW 21	Tokomaru Wastewater Treatment Plant - Consent Renewal	100,000	0	0	0	TBA	Jun-16	
WW 29	Foxton Reticulation - Renewals	417,873	8,326	46,983	38,657	Oct-15	Jun-16	
WW 30	Levin Reticulation - Renewals	1,758,767	840,669	856,142	15,473	Jul-15	Jun-16	On Track
WW 35	Districtwide - Reticulation Unplanned Renewals	443,377	41,786	197,056	155,270	Oct-15	Jun-16	
WW 36	Levin Treatment Plant - Planned Renewals	1,044,242	146,671	544,242	397,571	Dec-15	May-16	Resource Consent costs to date
WW 38	Levin Treatment Plant - Unplanned Renewals	88,478	11,862	0	-11,862	Oct-15	Jun-16	
WW 50	Tokomaru WWTP Desludging	100,000	11,862	0	-11,862	Apr-16	Jun-16	
WW 51	Tokomaru WWTP Oxidation Pond Relining	61,500	0	0	0	TBA	Jun-16	
RD 13	Footpath Renewal	400,000	75,292	230,000	154,708	Jul-15	Jun-16	
SW 15	Solid Waste - Cap Shape Correction	68,580	0	0	0	Mar-16	Jun-16	
PR 13	Thompson House Exterior renew & Paint	54,530	0	54,530	54,530	Jan-16	Jun-16	Design in progress, construction drawings being developed to go out to tender

Statement of Capital Expenditure – Major Projects (continued...)

Reference	Description	LTP 2015/16	Project Cost YTD			Expected Start	Expected Completion	Comments
			Actual	YTD Budget	Variance			
PRES 13	Waitarere Dune management Dune management - flatten recour	102,900	0	0	0	TBA	Jun-16	
PRES 44	Levin Domain Pathways resurface	298,780	0	0	0	Dec-15	Jun-16	Transfer to 2016/17
PRES 62	Reserves - Foxton Beach	100,000	0	0	0	TBA	Jun-16	
CA 19A	IT Disaster Recovery brought forward from 2013/14	130,000	0	60,000	60,000	Jan-16	May-16	
CA 25	Rural Aerial Updates	50,000	10,018	25,000	14,983	Dec-15	Mar-16	
Total Renewals		7,017,377	1,945,064	2,620,480	675,416			
Growth/LOS/Renewal projects Mixed								
CS 11	Te Awahou Community Centre	2,683,500	481,439	813,995	332,556	Jul-15	Jun-16	On 3 Feb 2016 Council Agenda it was presented and agreed that \$600,000 from the reservoir project would not be spent
WS 46	Levin Bore exploration, new reservoir, treatment plant upgrade	3,010,665	1,846,224	2,630,864	784,640	Jul-15	Apr-16	
Total Growth/LOS/Renewal projects Mixed		5,694,165	2,327,664	3,444,859	1,117,195			



Statement of Rates Debtors

Area	Total assessments	Assessments with arrears	% with arrears	Total arrears	Year to date arrears	Year to date penalties	Year to date receipts	Prior year arrears
F - Foxton	1274	99	8%	237,320	36,698	34,793	(107,072)	272,901
FB - Foxton Beach	1572	59	4%	101,892	26,356	13,518	(48,891)	110,908
HB - Hokio Beach	199	34	17%	723,787	7,087	121,300	(7,378)	602,778
L - Levin	7350	247	3%	490,018	109,229	83,901	(212,537)	509,425
MK - Manakau	86		0%	0	0	0	0	0
NR - Non Rateable	127	2	2%	2,071	(665)	512	(302)	2,526
OH - Ohau	150	4	3%	3,956	1,092	379	(2,436)	4,920
R - Rural	2612	90	3%	447,575	13,164	75,379	(23,515)	382,546
RL - Rural Lifestyle	2401	94	4%	170,906	27,444	29,429	(46,727)	160,761
S - Shannon	674	71	11%	154,688	25,079	24,662	(39,835)	144,782
TK - Tokomaru	164	3	2%	1,758	(658)	686	(4,040)	5,771
WB - Waitarere Beach	943	21	2%	33,379	8,599	3,804	(11,827)	32,803
WK - Waikawa Beach	231	2	1%	1,321	50	273	0	998
Total at 31 January 2016	17,783	739	4%	2,368,670	253,475	388,636	(504,560)	2,231,119
Total 31 January 2015	17,782	1,345	8%	3,244,906	887,901	361,813	-	1,975,191

In the year to 31 January 2016

- 136 assessment are now receiving their invoices by email
- 1,887 rate assessments have applied for a rates rebate totalling \$1,033,451
- 57, 919 payments for rates have been received totalling \$19,197,487
- 443 assessments totalling \$727,118 have been sent to DMC for collection

Statement of Sundry Debtors

Category	Total Outstanding	Current Outstanding	31 - 60 days Outstanding	61 - 90 days Outstanding	Over 90 days Outstanding	Notes
Aquatic Centre	3,590	1,964	1,410	216	0	
Building - Exempt Work	115	115	0	0	0	
Building Consents	52,638	24,974	7,365	2,071	18,228	3
Building Fee - BWOF	975	520	195	65	195	
Cemeteries	15,260	15,066	98	96	0	
Dev Cont New Policy	87,582	0	0	0	87,582	1
Develop Cont Old Policy	61,876	0	0	0	61,876	
Dogs	752	0	0	0	752	
Dogs - Debt Collection	16,011	0	0	0	16,011	
Dogs Arrange to pay	6,834	627	805	411	4,991	
Dogs Pre Payments	57	0	44	0	13	
Fines	7,061	165	5	0	6,891	
Fire Hazard	631	0	0	0	631	
General	83,467	27,069	16,937	325	39,136	
Health Accreditation Renewals	2,019	1,046	0	218	755	
Hire	3,404	177	891	0	2,336	
On Charges	81,210	10,005	692	200	70,312	4
Pension Housing	3,793	3,151	0	0	641	
Rental Income Monthly	98,453	1,822	597	13,083	82,951	2
Resource Consent Fees	92,449	39,362	7,810	0	45,278	5
Rubbish Bags	53,976	51,576	1,200	800	400	
Staff Account	2,680	1,576	0	102	1,002	
Te Horowhenua Trust General	8,943	0	0	0	8,943	
Waste Transfer Station	1,634	730	732	172	0	
Water	20,152	3,919	9,610	1,963	4,661	
Water Septage - Septic Tank Disposal	718	718	0	0	0	
Total as at 31 January 2016	706,278	184,582	48,392	19,720	453,584	6
Total as at 31 January 2015	1,123,585	319,701	39,939	25,572	738,372	

Notes and Comments

1. These Development Contribution debtors are being actively pursued. The batch of debt letters sent had a positive effect with several payments being made. Most of the Development Contributions – Old Policy are with the Debt Collection Agency, with the balance of them either being paid off or having an arrangement to pay when the sections sell.
2. The Rental Income category is comprised mainly of annual endowment leases, which are billed in October each year and have until September the following year to pay. The majority of these lessees pay regular monthly amounts, with a few making lump sum payments, for some leases this builds up a credit balance which is offset against the October invoicing.
3. Amongst the Building Consents category, there are some damage deposit bonds in here, as well as extensions of time for a number of the older aged consents.
4. In the On Charges category, the majority of the 90+ Days debtors have been provided for as Doubtful Debts.
5. Amongst the Resource Consent category, there are some land use bonds. The debtors in this category are being actively pursued, and some of the 90+ Days debtors have been provided for as Doubtful Debts.
6. Out of the \$453k owing +90 Days, \$180k is provided for in the Doubtful Debts Provision. As at 31 January 2016 there are 585 sundry debtors and 620 debtors made payments totalling \$409,723.

Statement of Loans by Parcel

Loan parcels	Maturity	Interest	Opening balance	Raised	Repaid	Closing balance
Due within a year						
Stock FRN	16 May 16	4.2000%	2,000,000			2,000,000
Stock	16 Aug 16	6.2750%	2,000,000			2,000,000
Total due within a year						4,000,000
Due within 2 - 5 years						
Stock	15 Mar 17	5.0550%	3,000,000			3,000,000
Stock	23 May 17	4.3900%	4,000,000			4,000,000
LGFA FRN	15 Dec 17	3.7325%	2,000,000			2,000,000
Stock	15 Nov 18	5.5950%	2,000,000			2,000,000
LGFA Bond	15 Mar 19	4.4500%	4,000,000			4,000,000
LGFA Bond	15 Mar 19	4.7064%	5,000,000			5,000,000
LGFA FRN	15 Mar 19	3.6225%	3,000,000			3,000,000
Total due within 2 - 5 years						23,000,000
Due after 5 years						
LGFA FRN	15 May 21	3.7438%	4,000,000			4,000,000
LGFA Bond	15 May 21	4.5650%	5,000,000			5,000,000
LGFA Bond	15 May 21	5.9852%	5,000,000			5,000,000
LGFA Bond	15 May 21	5.8516%	5,000,000			5,000,000
LGFA Bond	15 Apr 23	5.1336%	4,000,000			4,000,000
LGFA Bond	18 May 22	3.3205%	3,000,000			3,000,000
LGFA Bond	19 May 25	3.3855%	7,000,000			7,000,000
Total due after 5 years						33,000,000
Total			60,000,000	0	0	60,000,000

Statement of External Loans and Interest by Activity

Activity	Loans as at 30 Jun 2014	Loans as at 30 Jun 2015	Year to date Finance costs
Water supply			
Water Levin	2,550,000	3,300,000	83,830
Water Shannon	1,350,000	1,400,000	35,564
Water Foxton	900,000	900,000	22,863
Water Foxton beach	350,000	300,000	7,621
Water Tokomaru	100,000	400,000	10,161
Total for water supply	5,250,000	6,300,000	160,040
Wastewater			
Wastewater Levin	6,050,000	7,000,000	177,822
Wastewater Shannon	6,150,000	6,650,000	168,931
Wastewater Foxton	1,150,000	1,400,000	35,564
Wastewater Foxton Beach	350,000	300,000	7,621
Wastewater Tokomaru	0	50,000	1,270
Wastewater Waitare	0	50,000	1,270
Total for wastewater	13,700,000	15,450,000	392,478
Stormwater	2,300,000	2,300,000	58,427
Waste management Landfill	4,500,000	4,550,000	115,584
Recreation and leisure			
Libraries	6,900,000	7,900,000	200,685
Pools	2,850,000	2,700,000	68,588
Reserves	1,300,000	1,350,000	34,294
Sports grounds	1,500,000	1,450,000	36,835
Total for recreation and leisure	12,550,000	13,400,000	340,402
Properties			
Residential housing	5,000,000	5,000,000	127,016
Halls	250,000	250,000	6,351
Commercial properties	1,200,000	1,150,000	29,214
Toilets	300,000	300,000	7,621
General properties	800,000	750,000	19,052
Cemeteries	0	100,000	2,540
Council building	6,800,000	6,500,000	165,120
Total for properties	14,350,000	14,050,000	356,914
Other activities			
Information technology	1,500,000	1,500,000	38,105
District plan	2,600,000	2,450,000	62,238
Total for other	4,100,000	3,950,000	100,342
Total	56,750,000	60,000,000	1,524,188

Statement of Internal Loans and Interest by Activity

Activity	Loans as at 30 Jun 2014	Loans as at 30 Jun 2015	Year to date Finance costs
Water supply			
Water Levin	38,323	44,338	1,267
Water Shannon	41,366	47,234	1,350
Water Foxton	5,172	49,717	1,421
Water Foxton beach	4,237	40,130	1,147
Water Tokomaru	7,997	14,491	414
Total for water supply	97,095	195,910	5,600
Wastewater			
Wastewater Levin	26,056	14,425	412
Wastewater Shannon	5,628	7,066	202
Wastewater Foxton	97,038	31,782	908
Wastewater Foxton Beach	(1,729)	3,732	107
Wastewater Tokomaru	81,678	28,411	812
Wastewater Waitarere	81,962	26,458	756
Total for wastewater	290,633	111,874	3,198
Stormwater	1,996	72,917	2,084
Waste management Landfill	56,659	37,161	1,062
Recreation and leisure			
Libraries	277,057	25,929	741
Pools	(3,821)	10,561	302
Reserves	17,034	49,463	1,414
Sports grounds	48,853	42,503	1,215
Beautification	24,038	23,076	660
Total for recreation and leisure	363,161	151,532	4,331
Properties			
Residential housing	10,207	35,866	1,025
Halls	34,405	29,101	832
Commercial properties	22,987	24,068	688
Toilets	18,546	9,187	263
General properties	4,824	49,906	1,426
Cemeteries	121,930	17,294	494
Council building	25,856	14,478	414
Total for properties	238,755	179,900	5,142
Other activities			
Information technology	109,024	44,663	1,277
District plan	451	23,452	670
Total for other	109,475	68,115	1,947
Total	1,157,774	817,409	23,364

Audit New Zealand - Final Management Report for the year ended 30 June 2015

File No.: 16/23

1. Purpose

To present to the Finance Subcommittee the Audit New Zealand - Draft Management Report for the year ended 30 June 2015.

2. Recommendation

- 2.1 That Report 16/23 on Audit New Zealand - Final Management Report for the year ended 30 June 2015 be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

The Finance, Audit & Risk Subcommittee reviews the Audit Management Report annually as part of the monitoring of Council's Annual Report and financial performance. The draft report has now been received and is submitted for the Finance Subcommittee to consider.

Representatives from Audit New Zealand will not be in attendance as both Debra Perera and Fiona Elkington have other commitments. They will, however, be available next month should the Subcommittee wish to ask them questions.

4. Issues for Consideration

The report highlights any areas of concern raised by the Auditors, their assessment of the financial controls, items from previous audits that remain unresolved, and also items that the Auditor General has asked to be looked into across all local authorities.

Council Officers have been given the opportunity to respond to any audit concerns and these responses are also contained within the report.

In summary;

- The Audit Management Report is designed to report the findings of the Audit to the Mayor and Council.
- The Subcommittee would normally have been able to talk to the auditors without Council Officers being present.
- The report contains the Officer responses to issues raised in the report to which the Subcommittee is able to seek further clarification from Audit (at the March meeting) and/or officers.

Attachments



No.	Title	Page
A	Draft Audit NZ Management Report 2015	27

Confirmation of statutory compliance

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

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

Signatories

Author(s)	Doug Law Group Manager - Finance	
Approved by	Doug Law Group Manager - Finance	

Report to the Council on the audit of
Horowhenua District Council
for the year ended 30 June 2015

1 Key messages

We have completed the audit for the year ended 30 June 2015. This report sets out our findings from the audit and draws attention to areas where Horowhenua District Council (the Council) is doing well or where we have made recommendations for improvement.

Audit opinion

We issued an unmodified audit opinion on 28 October 2015. 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.

There were significant improvements to the quality of the Annual Report that was presented to us for audit. We were pleased with the way Council took ownership of the Annual Report and worked with us to ensure all issues were dealt with in a timely manner.

Significant matters considered during the audit

Implementation of appropriate systems for mandatory performance measures

The Council incorporated the new Department of Internal Affairs (DIA) mandatory performance measures in the 2014/15 Annual Plan. We found that Council was unable to report back against several of the measures reported against due to lack of appropriate systems in place. These related mainly to the performance measures in the 2014/15 Annual Report on fault responses and customer satisfaction that should be recorded through the Council's Customer Request Management (CRM) system.

To ensure that Council can report the full year performance for the mandatory measures for 2015/16, it is essential that Council review and immediately implement appropriate performance measurement systems for all the DIA measures.

Transition to the new PBE accounting standards

The District Council took the necessary steps to prepare for the transition to the new Public Benefit Entity (PBE) Accounting Standards, effective from 1 July 2014.

We are satisfied that the District Council's financial statements have been prepared in accordance with the new PBE accounting standards.

2 Issues identified during the audit

3 The following table summarises our recommendations and their priority:

Ref	Recommendation	Urgent	Necessary	Beneficial
2.1.1	Systems for mandatory performance measures Implement appropriate systems in place as soon as possible to ensure Council can report against the mandatory performance measures in 2015/16.	✓		

Ref	Recommendation	Urgent	Necessary	Beneficial
2.1.2	<p>SSP - Completeness of supporting documentation held by Contractors</p> <p>All supporting information be held by the Council and reviewed for completeness. Perform spot checks to ensure that the supporting information provided by the contractor agrees to the CRM and other reports from the contractor.</p>	✓		
3.1.1	<p>Independent review of creditor masterfile</p> <p>Implement an independent review over the creditor masterfile changes made to ensure that changes made to the creditor masterfile are legitimate. Reinstate a monthly review of the creditor masterfile, evidenced with a dated signature.</p>	✓		
3.1.2	<p>Independent review of payroll masterfile</p> <p>Implement an independent review of the payroll masterfile changes from the pay run ended 15/02/2015 to date to provide assurance to management that changes made to the payroll masterfile are legitimate. Complete future independent reviews of the changes made to the payroll masterfile in a timelier manner</p>	✓		
3.1.3	<p>Internal assurance over landfill revenue</p> <p>Obtain assurance that the landfill revenue information received in the last three quarters was appropriate. Complete quarterly audits in a timelier manner.</p>		✓	
3.1.4	<p>Reviews of users and their access levels within Authority (IS)</p> <p>Perform a review of Authority users and their access levels to ensure that they remain appropriate.</p>			✓
3.1.5	<p>Patching and Virus Management improvements (IS)</p> <p>Review patch and virus management procedures to ensure that the systems are managing all of council's current devices.</p> <p>Establish an after-hours outage window so that IT staff are able to take servers down to perform maintenance and configuration.</p> <p>Establish reporting on the status of patching and virus management to ensure councils systems are protected.</p>			✓
5.2.1	<p>Reporting of unplanned and deferred maintenance</p> <p>Report planned, unplanned and deferred maintenance to Council.</p>		✓	
6.1	<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 appropriate and detailed enough for assets which are commonly added to the schedule.</p>		✓	

Ref	Recommendation	Urgent	Necessary	Beneficial
6.2	Maintenance of fixed assets WIP schedule Monitor WIP balances on a regular basis to ensure that any WIP that should be capitalised is done so.		✓	
6.3	PPE additions - missing contract documentations 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.		✓	
6.4	Classification of "assets held for sale" Implement a review process at year end to identify any assets for sale which meet the criteria as held for sale in the financial accounts.			✓
6.5	Appropriateness of procurement process Future significant procurement should follow a tender process.		✓	
6.6	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 are appropriately followed. Encourage staff to use of the Online Requisition system to reduce the risk of payments being approved outside staff delegation	✓		
6.7	Project management improvements Formalise the methodology for managing projects and ensure there is a planned approach to post implementation review in place.		✓	
6.8	Keeping the interest register up to date Remind elected members and other key management personnel to update the interest register on a regular basis.		✓	

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

Thank you

We would like to thank the Council and management for assistance received during the audit.

Debbie Perera
Audit Director
15 December 2015

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1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 28 October 2015. This means that we were satisfied that the financial statements and statement of service performance fairly reflected Horowhenua 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. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. There were no significant misstatements identified during the audit that have not been corrected.

2 Significant Issues arising from the Audit

2.1 Statement of Service Performance (SSP) Reporting

During 2013/14, we found a number of opportunities for the statements of service performance to enhance the story around the District Council's performance and provide more meaningful narrative information to the community.

In 2014/15 we again found issues with the reporting against the statement of service performance. We found that, although the new DIA performance measures are not mandatory until the 2015/16 Annual Report, Council had included the new measures within the 2014/15 Annual Plan and were therefore required to report back against these measures in the 2014/15 Annual Report as well as the original measures outlined in year 4 of the 2012-22 LTP.

With a number of new staff on board we found that there was a lack of awareness about the new measures and the need to report against them. Therefore appropriate systems were not set up to capture the information required to accurately report against some of them.

We note Council was able to report on the original performance measures in the 2012/22 LTP (Year 3).

Refer below for the specific areas where the Council needs to improve:

2.1.1 Systems to report against the mandatory measures

Recommendation

Implement appropriate systems as soon as possible to ensure Council can accurately report against the mandatory performance measures in 2015/16.

Review the available information for the year to date to ensure the performance can be reported for the full year.

Findings

Council included the new Department of Internal Affairs (DIA) mandatory performance measures in its 2014/15 Annual Plan and reported against these in the 2014/15 Annual Report.

We found that several of the new mandatory performance measures were not able to be reported against due to lack of appropriate system in place. These were mainly the performance measures on fault responses and customer satisfaction that should be recorded through the Council's CRM system.

The measures under the Non-Financial performance measures Rules 2013 are required to be reported against for the first time in 2016 and the inability to report against the mandatory performance measures in 2015/16 may have an impact on our audit opinion. Council will need to review and immediately implement systems to capture the performance information to report against these measures. The Council will also need to ensure that it reviewed the available performance information for the year to date to ensure performance can be reported for the full year.

The detailed measurement weaknesses are noted in Appendix 2.

Council attempted to report the information that it had against the performance measures, however we found a lack of supporting documentation – this is detailed in 2.1.2 below.

Management comment

Noted. The capture of information for the mandatory performance measures was a significant issue during the audit. Council will meet with Audit in February 2016 to resolve the reporting requirements.

2.1.2 SSP - completeness of supporting documentation held by contractors

Recommendation

All supporting information be held by the Council and reviewed for completeness.

Sport checks be performed to ensure that the supporting information provided by the contractor agrees to the CRM and other reports from the contractor.

Findings

In an attempt to report against the new performance measures that did not have an appropriate system in place we noted the following:

- Instances where supporting information (contractor forms) were unable to be located.
- Instances where supporting information (contractor forms) were incomplete, that is, lacked the CRM job numbers, time without water, properties affected.

- Supporting information from contractors did not agree to CRM reports or reports from the contractor.
- Contractor was unable to confirm the number of complaints in relation to water clarity, taste and continuity of supply due to lack of systems.

The Council needs to ensure when setting up the systems referred to in 2.1.1 that there is appropriate retained evidence to support the service performance information reported in the Annual Report.

Management comment

Noted. The capture of information for the mandatory performance measures was a significant issue during the audit. Council will meet with Audit in February 2016 to resolve the reporting requirements.

2.2 First financial statements prepared using the new public benefit entity accounting standards

The District Council was required to prepare the 30 June 2015 financial statements using the new public benefit entity accounting standards. We communicated early on with the Council over the transition to give them adequate time to prepare.

Management completed the following:

- Assessed and documented the differences that may have a recognition, measurement, presentation, or disclosure effect on the District Council's financial statements.
- Updated the statement of accounting policies to comply with the new standards.
- Determined any required system changes to comply with the new standards.

We audited the updated accounting policies, opening statement of financial position, and restated comparatives during the final audit visit. We were satisfied that the Council had prepared for the adoption of the new standards with minor changes required in the disclosure of exchange/non-exchange transactions. We found that there were no material adjustments to the comparatives arising from the transition to the new PBE standards.

2.2.1 Grant from Housing New Zealand

We considered the accounting treatment under IPSAS-23 for revenue received from the Crown for the Council's housing.

Council received \$5.2 million from Housing New Zealand in 2008. There were a number of stipulations attached to the grant, including what the money could be spent on. Council is obligated to repay the full amount of the grant (including interest to date) if it sells the properties within 20 years of receiving the grant (i.e. 2028).

Council recognised the grant in full at the time it was received (in two tranches in 2007 and 2008). Since then Council have been recognising the obligation to repay if they exit the housing assets as a contingent liability. We considered whether, in substance, the grant is a

grant with conditions in place, which, under IPSAS-23 would require the revenue to be deferred and a liability to be recognised.

After consideration of the various stipulations in the agreement, IPSAS-23 we agreed that nothing in the standard precluded the Council's treatment and that it is appropriate for the grant to have been recognised at the time Council fulfilled the conditions in regards to the spend of the money along with a contingent liability.

We do remind Council that should it decide to sell the properties that have the suspensory loan attached, that it will need to need to recognise the liability.

3 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. 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 reported section 3.1 of this report.

Internal controls

We reviewed the internal controls in place for your key financial information systems, as detailed below. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial 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.

3.1 Areas for improvement noted during the audit

3.1.1 Independent review of creditor masterfile

Recommendation

Implement an independent review over the creditor masterfile changes made to ensure that changes made to the creditor masterfile are legitimate.

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.

Reinstate a monthly review of the creditor masterfile, evidenced with a dated signature.

Findings

Changes made to the creditor masterfile are usually independently reviewed on a monthly basis.

During our interim visit, we found that the creditor masterfile report had not been run and reviewed from 1 July 2014 to April 2015. We understand that this was missed due to a change in staff.

When changes to the creditor masterfile are not reviewed in a timely manner, this increases the risk that unauthorised changes made are not identified and rectified in a timely manner.

Management comment

Noted and agreed. The masterfile will be signed off on a monthly basis going forward. A retrospective review of changes made from 1 July to date will also be carried out.

3.1.2 Independent review of payroll masterfile

Recommendation

Implement an independent review of the payroll masterfile changes from the pay run ended 15/02/2015 onwards to provide assurance to management that changes made to the payroll masterfile are legitimate.

Complete future independent reviews of the changes made to the payroll masterfile in a timelier manner.

Findings

During our interim audit visit, we found that changes made to the payroll masterfile had been independently reviewed in a timely manner except for the last four payruns starting with the pay run ended 15/02/2015 to April 2015.

This increases the risk that unauthorised changes to the payroll masterfile will not be identified and rectified in a timely manner.

Management comment

Noted. This was largely due to the handover of payroll from Finance to HR. Normally these reports are signed off on a timely basis. The four outstanding reports have now been signed off. They will now be signed off by HR. It should be noted that all maintenance is signed off as part of the fortnightly payroll checking.

3.1.3 Internal assurance over landfill revenue

Recommendation

Obtain assurance that the landfill revenue information received in the last three quarters was appropriate. Complete quarterly audits in a timelier manner.

Findings

An audit is usually performed by the Solid Waste Engineer quarterly to ensure that the weights information per the buyer created invoice (from Midwest) and the Council records agree. The audit also ensures that waste vehicles observed were all approved waste collectors as well as their time in/out verified against camera footage.

During our interim audit visit, we noted that with the change in staff, there was no evidence that the audits for the last three quarters from April 2015 had been carried out.

This increases the risk that errors in landfill revenue are not identified and rectified in a timely manner.

Management comment

There was no Solid Waste Manager for a while so this will be resolved as part of the handover. The current Solid Waste Engineer has been advised of the quarterly audits and has included this in his to do list.

3.1.4 (IS) Reviews of users and their access levels within Authority

Recommendation

Perform a review of Authority users and their access levels to ensure that they remain appropriate.

Findings

No reviews of Authority users and their access levels have been performed this year.

We noted two staff with superuser access who no longer worked at the council, and three staff who work in the customer centre who have superuser access

Management comment

Noted. A review of Authority users and their access will be undertaken in 2016 as part of move to role based security.

3.1.5 (IS) Patching and Virus Management improvements

Recommendation

Review patch and virus management procedures to ensure that the systems are managing all of 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.

Findings

Updating of Microsoft patches is not up to date. There is no established outage window where IT staff are able to take servers down to update patches.

The patch management software (WSUS) includes devices in its database which have been removed from councils network

The Anti-Virus database (Sophos) also contains devices in its database which are redundant.

Management comment

Council have implemented new change control processes with a scheduled change window for pre-approved changes. This has been scheduled for three days per month (one of which is a Sunday afternoon). All changes performed during the month are included in the monthly report to management.

We have engaged a third party to re-establish the WSUS server and to clean up and develop an ongoing process to remove the devices which are redundant (SOPHOS). This is expected to be completed by June 2016.

4 Matters raised in our Audit Arrangements Letter

4.1 Progress against the renewals and capital programme

Council has historically fallen short in the level of renewals spending required to keep their infrastructure networks in appropriate condition and achieving appropriate performance levels.

We reviewed the progress Council has made against both the renewal programme and the capital programme in the 2014/15 year.

Overall, the Council has again fallen short of its planned capital works programme for the year with Council only spending 41% of the \$29M+ capital expenditure budget.

The main projects affected included the Foxton and Foxton Beach wastewater strategic upgrade treatment plants (\$4.8M underspent), Shannon wastewater disposal system (\$4.9M underspent), and Levin water bore exploration, new reservoir and treatment plant upgrade (\$2.5M underspent). The delays largely occurred due to delays in obtaining the resource consents.

Council is aware of the backlog and there is intention to catch up with the capital works programme. These projects have been included in the 2015-2025 LTP.

Apart from the Levin WW Reticulation, the projects are new capital (to meet additional demand and to improve the level of service). We are satisfied that current levels of service have not been compromised.

We are also aware that Council is in the process assessing the condition of its underground infrastructure assets. Council has recognised that there is more to do to improve data reliability in this area.

4.2 Rates

Rates are Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. In 2013/14, we found several instances where consistency of the terminologies used between the Annual Plan, the rates resolution and the rates strike documentations could be improved. Details of our recommendations were in our prior year management reports.

We again considered Council's compliance with aspects of the LGRA that materially impact on the financial statements. Principally this means a focus on the rates setting process – the consistency and completeness of the resolution and the Funding Impact Statement (FIS), and reviewing a sample of differentially set and/or targeted rates to assess whether the matters and factors used are consistent with the LGRA. We also followed up any issues identified from our review of rates in 2014 and continued to encourage management to ensure there is consistency across the relevant documentations.

We did not find inconsistencies during our review with the requirements of the LGRA.

4.3 Quality Assurance over the Annual Report

In previous years we have had significant issues around the quality of the annual report presented to us. We raised in prior management reports and audit arrangements letter the need for the document presented to audit to be complete, quality-checked and include meaningful narrative explanations for variances against planned results. The annual report should be to the standard that it could be submitted for adoption by Council.

This year there was a significant improvement in the quality of the annual report presented to us. Management had performed an internal quality review and overall there were minimal changes required to the balances and the disclosures.

We were impressed with the way Council took ownership of the Annual Report and the way they worked with us to resolve all issues, particularly with the transition to IPSAS. As noted in 2.1 Council needs to improve the quality of reporting of the statement of service performance and explanations of variances to expected performance. We will continue to liaise with Council management to facilitate further improvements.

5 Our areas of interest for all Local Authorities

Our findings on other areas of interest that are not necessarily significant to the District Council, but are areas we monitor as part of our responsibility to consider the broader risks affecting Local Authorities are detailed in Appendix 3.

5.1 Investment management

Public sector entities are accountable for the public money that they invest in financial assets or projects and programmes. Financial assets across the New Zealand public sector are becoming increasingly significant.

As part of the audit we updated our understanding of the District Council's financial assets and investment practices.

We found that the Council has investments in term deposits with banks; investment in subsidiaries, borrowers notes, and strategic shareholdings (of minimal value). We found that the practices in place are appropriate for the size of the Council and the level of investments.

5.2 Asset management

Asset management is a core part of the District Council's business and critical to the prudent and sustainable use of public funds. We have recently reviewed and commented on the District Council's infrastructure strategy and asset management practices during our audit of the District Council's Long Term Plan (LTP).

We found that the Asset Management Plans (AMP) reviewed by our sector specialists (Water and Wastewater) were of good quality and evident that there has been improvement in the asset management area since the last LTP.

We did note there are varying confidence ratings for the reliability of the data, some missing attribute data, uncertainty about the completeness and accuracy of data, condition and performance ratings not assigned to assets and condition assessments not being carried out regularly.

We raised in our LTP management report the need for Council to continue to gather information on the condition assessment of the underground assets to get more accurate information about the timing and cost of replacing these assets. We understand continued efforts are being made to rectify the situation.

We also found that the Council is currently not monitoring the level of unplanned vs planned and deferred maintenance expenditure. See our recommendations below:

5.2.1 Reporting of unplanned and deferred maintenance

Recommendation

Report planned, unplanned and deferred maintenance to Council.

Findings

During our review of the Council asset management practices, we found that:

- While there is functionality within the GL codes to identify the level of planned and unplanned maintenance expenditure, the codes for unplanned maintenance expenditure are currently not being utilised widely. Specific maintenance tasks are not reported on to Council. Financial reports are made monthly on budget progress but these do not currently separate planned from unplanned maintenance.

Reporting of the extent of planned and unplanned maintenance would help management and council understand how its infrastructure assets are operating. It would also assist decision making on the urgency/timing of relevant renewals projects.

- While there is reporting of maintenance at budget level, there is no reporting of deferred maintenance.

Reporting of deferred maintenance would help management/Council obtain understanding as to the cause and any impact of deferring maintenance work.

Management comment

Noted.

5.3 Audit committees

An effective Audit Committee can have a positive impact on the identification and management of risk and provide valuable support to an entity and the Governing Body. In March 2008, the Auditor-General published a good practice guide: Audit committees in the public sector.

The Office of the Auditor-General is in the process of updating their 2008 guidance on Audit Committees "Audit committees in the public sector". As part of that process a discussion document has been published seeking comment from Audit Committees in the public sector on that works and doesn't work for them.

We encourage Council to consider the guidance and discussion document and provide comment.

6 Other findings Arising from the audit

6.1 Maintenance of fixed asset register (FAR)

Recommendation

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.

Findings

During our review of fixed assets we found that the fixed asset register included a wide range of depreciation rates which were outside the policy for the particular assets which they were attached to in the register.

Negative accumulated depreciation balances and depreciation rates on land were also noted in the FAR.

Management comment

A review of both FAR and CRV will be undertaken in 2016.

6.2 Maintenance of fixed assets Work In Progress schedule

Recommendation

Monitor work in progress (WIP) balances on a regular basis to ensure that any WIP that should be capitalised is done so.

Review WIP balances at year end to ensure that they remain appropriate.

Findings

From our review of WIP balances at year end we noted that management were unable to confirm whether \$708,520 expenditure for Levin wastewater remained a valid WIP balance, or whether the amount should be capitalised.

Accounting standards require fixed assets balances to be capitalised when they become available for use. When this is not carried out, the depreciation charge for the year becomes understated.

While we found this as an issue, the balances involved were such that it will not materially misstate the expenditure, property, plant and equipment, and depreciation balances.

Management comment

Noted. We will work to improve the identification of WIP and capitalise assets when they are operational.

6.3 PPE Additions - Missing contract documentation

Recommendation

Retain all contract information and ensure it is appropriately filed and archived to enable monitoring of key KPI's and contract conditions. All contracts should be appropriately approved and payments approved in line with delegated authority.

Findings

During our fixed assets additions testing, we found several instances where the signed contract documentation could not be found.

There is a risk that if contracts are not retained or easily accessible that council is not monitoring contracts appropriately to ensure that key KPI's and contractual conditions are met.

Council also has an obligation to ensure that it has sufficient appropriate evidence around its transactions.

Management comment

Noted.

6.4 Classification of “assets held for sale”

Recommendation

Implement a review process at year end to identify any assets for sale which meet the criteria to be classified as an asset held for sale in the financial accounts.

Findings

During our review of assets it was noted that properties were approved for marketing in preparation for sale or had been put on sale but the assets were not reclassified as held for sale.

While this was subsequently corrected in the financial accounts, implementation of a year-end review for such assets will assist in ensuring the asset held for sale balance is accurately reported in the year end accounts.

Management comment

Noted.

6.5 Appropriateness of procurement process

Recommendation

Significant procurements follow a tender process.

Findings

During our review of WIP balances we noted that approximately \$970,000 has been spent on the Foxton Community Centre in the 2015 financial year.

We reviewed the processes around awarding contracts to external parties and noted that the largest contracts (Bossley Architects, OPUS) were awarded based on existing relationships and past experiences.

Given the value of work performed this period (approximately \$970k) best practice would be to go to tender to ensure that best value for money is obtained

Management comment

Noted.

6.6 Enforcement of the delegated financial authority

Recommendation

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 are appropriately followed.

Encourage staff to use of the Online Requisition system to reduce the risk of payments being approved outside staff delegation.

Findings

During our fixed assets additions testing, we found several instances where a contract payment was approved for payment by staff without the appropriate financial delegation, for example, one instance where the contract payment amount was almost twice the staff's financial delegation and three instances where the approving staff did not have a financial delegation at all.

During our expenditure testing, we also found one instance where an expenditure was approved for payment by staff without the appropriate financial delegation.

Management advised that the person is mainly responsible for this area so will often approve the invoices. We understand the delegated financial authority will be reviewed to either increase the staff's financial delegation in the area or have the manager co-sign all invoices above the staff's financial delegation.

We note that the Council's Online Requisition system has an automatic control in place to ensure payments are approved within the delegated financial authority. If more staff use this function the less chance there is of breaches of delegated authority.

Management comment

The delegation list will be reviewed and updated in 2016. Council will be implemented AP workflow in 2016 which has a greater reliance on the use of OLR's with the subsequent increase in controls.

6.7 Project management improvements

Recommendation

Formalise the methodology for managing projects and ensure there is a planned approach to post implementation review in place.

Findings

Project management is the planning, delegating, monitoring and control of all aspects of the project, and the motivation of those involved, to achieve the project objectives within the expected performance targets for time, cost, quality, scope, benefits and risks.

During our review of project management practices within the Council, we found the Council could improve in how it is currently managing its projects. Currently there is:

- lack of formalised or documented approach/methodology for managing projects;
- no planned approach to post implementation review (PIR); and
- projects are not routinely subjected to independent quality assurance reviews (IQA).

We understand that the project managers are currently referring to the Project Management Institute for guidance, that there is a spreadsheet maintained for lessons

learned from completed projects and that there is an independent member in the Projects Committee.

Given the turnover in staff, having a formalised or documented approach/methodology in place would help ensure consistency and continuance of approach within the Council.

The benefits of a good projects management system and practices include:

- A common, consistent approach;
- A controlled and organised start, middle and end;
- Regular reviews of progress against plan;
- Assurance that the project continues to have a business justification;
- Flexible decision points;
- Management control of any deviations from the plan;
- The involvement of management and stakeholders at the right time and place during the project;
- Good communication channels between the project, project management, and the rest of the organisation;
- A means of capturing and sharing lessons learned; and
- A route to increasing the project management skills and competences of the organisation's staff at all level

A structured approach to post implementation review helps identifies lessons learnt from past projects and applies them to current projects.

And Independent Quality Assurance provides assurance that:

- the project's Direction and Management is adequate;
- it complies with corporate or programme management standards and policies; and
- there is appropriate quality planning and quality control such that quality requirements will be met.

Independent Quality Assurance is external to the project and is provided to the organisation. It assists the Project Board to be suitably informed and assured that projects are following the approved methodology, are continually justified, that issues are appropriately escalated and that they remain within scope and on track towards achieving benefits.

Management comment

Council has in place a formal documented system for Project reporting to the Projects Committee which outlines how these projects are managed. These reports include progress, costs (budgeted, actual and projected), resourcing, risks register, opportunities as well as any Health and Safety matters for each individual projects. Reports are submitted to the Projects Committee on a monthly basis.

Following completion of projects, Council meets with the contractor to review the project. Key points are documented. Council agrees it can be more proactive in sharing the lessons learnt more widely across the organisation.

6.8 Keeping interest register up to date

Recommendation

Remind elected member and other key management personnel to update the interest register on a regular basis.

Findings

During a search of the Companies Office, we noted that some elected members had interests in companies that were not reflected in the interests register.

An up to date interest register is important because it allows council to easily identify and monitor any transactions entered into where there may be a perceived conflict of interest.

Management comment

Note. The interest register will be updated.

7 Status of previous recommendations

The status of each matter that was outstanding in last year's report to the Council is summarised in Appendix 4.

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
13	Closed - matters have been resolved
7	In progress - progress is being made, but not yet fully resolved
15	Open - no progress has been made

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 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 Horowhenua 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 non-financial information; a breach of significant legislation; or the risk of reputational harm.

Necessary

Improvements are necessary

Address at the earliest reasonable opportunity, *generally within 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: Areas of Performance measurement weakness

From our work over the SSP's we found the following measures that Council were unable to report against:

Water

Unable to report on:

- Response times

The performance measure requires specific timeframes for urgent and non-urgent call outs for a fault or unplanned interruption. We found that the CRM system has a functionality called "priority" which would be the equivalent of urgent if the "yes" option for priority is selected. However, this functionality is not used by the customer service staff as they do not feel they have the necessary experience to determine when a call out is urgent or not; they feel the assessment should be made by the contractors. However, the contractors do not have access to that "priority" view.

In addition, even if the "priority" field is completed by the customer service staff, the priority times are not in line with the target timelines as specified in the Annual Plan. This means that the Council is not able to report against the specific aspects of this performance measure.

- Customer satisfaction

The performance measure requires reporting against specific categories of complaints with water. We found that the CRM does not have the functionality (field/option is not available) to record complaints about water pressure or flow, and issues with Council's responses to issues raised with the Council. Clarity and taste were also combined and not differentiated. This means that the Council is unable to report against this measure fully.

- Water loss in accordance with DIA measures

This was not reported against as the calculations are still being developed.

Stormwater

Unable to report on:

- Number of flooding events and flooding response times

The system used in 14/15 was not set up to record the number of flooding events as per the DIA guidance which specifies that a flooding event is an overflow of stormwater from a territorial authority's stormwater system that enters a habitable floor .

Wastewater

Unable to measure:

- The number of dry weather overflows from territorial authority's sewerage system is less than two per 1,000 connections

We found that the current Report Forms completed by the contractors do not have a field for "dry weather overflows". This means the Council is unable to simply generate a report from its system to determine the number of dry weather overflows during the year.

- Number of complaints about blockages

We found that the current CRM system does not have an option to separately log ratepayer complaints with the Council's response to issues with its sewerage system. This means the Council is currently unable to report against this aspect of customer satisfaction.

- Complaint response times

We found that the CRM system has not accurately recorded the attendance and resolution times of the contractors, instead the times recorded for attendance and resolution in the CRM appear to be based on the time the jobs were updated in the CRM, and as such do not agree back to the contractors forms.

Roading

Unable to measure:

- 95% of weather events (floods and slips, or emergency incidents) responded to within 30 minutes of initial call to Council.

During our review, we found that the Council's interpretation is that the measure is assessed as being met if the Customer Service team refer the job onto the contractor within half an hour of it being logged. This interpretation is inconsistent with other fault response/response times KPIs in Wastewater, Stormwater and Water.

Appendix 3: Areas of interest for all Local Authorities

Areas of interest	Status/Findings
Conflicts of interest	
<p>Conflicts of interest are an area of concern from two perspectives; probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks. During 2007, the Office of the Auditor-General (OAG) published two sets of guidance for entities in this area.</p> <p><i>Managing conflicts of interest: guidance for public entities</i>, explains how to understand conflicts of interest in the public sector, and how to identify, disclose, and manage them. It also considers both the legal and ethical dimensions of conflicts of interest.</p> <p>The 2010 publication <i>Guidance for members of local authorities about the Local Authorities (Members' Interests) Act 1968</i> provides more specific guidance for Councillors. This is an updated version of previously published guidance about the legal requirements that apply to Council members in formal decision-making at meetings of their authority.</p> <p>The Local Authorities (Members' Interests) Act 1968 controls the making of contracts between Councillors and the Council and prevents Councillors from participating in Council matters in which they have a pecuniary interest.</p>	<p>In the course of our usual audit work we remained alert for, but did not identify any, conflicts of interest.</p> <p>Our prior year recommendation on the update to the conflicts of interest policy remains outstanding. Refer to Appendix 4 of this report.</p>
Elected members – remuneration and allowance	
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p> <p>Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period.³ A local authority must disclose remuneration paid or payable to each member from both the local authority and any Council organisation of the local authority.</p>	<p>We reviewed the Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.</p> <p>No issues were noted.</p>

³ Schedule 10, clause 18, Local Government Act 2002.

Areas of interest	Status/Findings
Possible LTP amendments	
<p>Every proposed amendment must be audited. An amendment arises where Council proposes:</p> <ul style="list-style-type: none"> • a significant change to services levels [section 97 (1)(a)]; or • to transfer ownership of a strategic asset [section 97(1)(b)]; or • a significant change to the revenue and financing policy [section 103(4)]. 	<p>We remained alert for possible amendments throughout the year. No amendments were identified.</p>
Project management	
<p>Taking a project-managed approach is an important part of effectively controlling capital works, changes to key IT systems and the process of change more generally – whether that is change to service delivery, or change to the way the entity works.</p>	<p>We reviewed the Council's approach to project management and considered whether an adequate control framework is in place and operating effectively.</p> <p>We found that the Council's project management approach can be improved. Our findings are detailed in section 6.7 of this report.</p>
Funding arrangements and procurement	
<p>The Auditor-General continues to have an interest in the appropriate management of funding arrangements and procurement throughout the public sector.</p> <p>The OAG has published two reports which are available on the OAG website:</p> <ul style="list-style-type: none"> • Public sector purchases, grants, and gifts: Managing funding arrangements with external parties; and • Procurement guidance for public entities. <p>More recently the Ministry of Business, Innovation and Employment issued the Government Rules of Sourcing including principles of government procurement, which came into force in October 2013. Agencies in the Public Sector are encouraged to apply the Rules as good practice.</p> <p>We recommend that Council's policies and procedures for funding arrangements and procurement be compared to the guidance provided in these reports.</p>	<p>We followed up on whether the Council has updated its policies and guidance in line with both the OAG publications.</p> <p>We found that there is currently a work-in-progress Procurement and Purchasing Manual, but this is not entirely aligned with the OAG publications. Refer to Appendix 4 of this report for details.</p> <p>We also reviewed whether procurement practices reflect Council policy and good practice.</p> <p>We found instances where the Council's procurement practices and good practice were not followed. Refer to section 6.5 and 6.6 of this report.</p>

Areas of interest	Status/Findings
Contract management	
<p>Contract management is an important component of procurement. Contract management includes the effective management and monitoring of the delivery of goods or services to the agreed levels. It is essential to ensuring that the Council obtains value for money from the contracts its procurement processes have put in place.</p> <p>Contract renewals provide opportunities for the Council to refresh contract expectations and deliverables to align to the LTP. This can also provide opportunities for efficiencies or other savings.</p>	<p>We discussed the contract management process the Council has and consider whether there is appropriate management.</p> <p>We found that there is still no integrated contract management policy for organisation-wide use. Refer to Appendix 4 of this report for follow up of the issue raised last year.</p>
Information technology	
<p>The District Council is dependent on its IT systems. The reliability of the IT systems, technology platforms, and associated controls is critical to maintaining the integrity of the District Council's data and ensuring continuity of services to its customers.</p> <p>The integrity of the IT systems is fundamental to the timely reporting of a quality Annual Report.</p>	<p>We completed a review of the District Council's IT General Controls (ITGC), including:</p> <ul style="list-style-type: none"> • IT security (network and applications; • business continuity and IT disaster recovery; • change management; and • Operations, problems and incident management. <p>Two new issues were identified (refer to sections 3.1.5 and 3.1.6), two existing issues were cleared and two remained outstanding. (Refer to Appendix 4)</p> <p>We also maintained an awareness of any planned or implemented initiatives and the impact these may have on the District Council's processes and control environment.</p> <p>There were no such initiatives signalled to us.</p>
Risk management	
<p>Sound risk management processes help to minimise the impact of risks on the organisation.</p> <p>Where the Council has not identified risks, or has not put in place specific processes for managing these risks, the organisation remains exposed to the full impact of the particular risk.</p>	<p>We performed a high level review of the broad approach taken and the processes in place around risk management.</p> <p>We found the policy is currently in the process of being reviewed and updated. Refer to Appendix 4 of this report for further details on our follow up on last year's issues.</p>

Areas of interest	Status/Findings
Property, plant and equipment	
<p>The District Council periodically revalues its land and buildings and infrastructure assets. PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The District Council needs to formally review whether a revaluation is needed this year for the asset classes that it is not proposing to revalue. 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>We reviewed the District Council's assessment of whether there is any significant difference between the carrying amount and fair value of its land and buildings and infrastructure assets.</p> <p>We are satisfied that the carrying value and fair value of land and buildings and infrastructure assets are not materially different.</p>
Financial reporting disclosures	
<p>Schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 detail disclosures to be included in the Annual Report. Council should review these requirements to ensure all disclosures have been included in the annual report.</p>	<p>We confirm that all the disclosures required by schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 have been appropriately included in the Council's annual report.</p>

Appendix 4: Status of previous recommendations

Outstanding matters

<p>Risk management Council to formally endorse the risk policy and reviews its current risk management framework/processes for appropriateness.</p>	<p>In progress The Council is currently in the process of updating its overall risk management framework, policy and procedures. We will continue to liaise with council over the progress with its risk management.</p>	<p>Necessary</p>
<p>Contract management Council to endorse an integrated policy for organisation-wide use.</p>	<p>In progress There is still no integrated contract management policy for organisation-wide use. Our discussion with Council staff and consultant Tim Munro confirmed that the policy will form part of the WIP procurement manual and there is a move towards having a centralised contract management system. We have communicated to the Council staff and consultant the best practice principles expected from the contract management policy and system. We also note any policy should include provisions for:</p> <ul style="list-style-type: none"> • Approval to go to market • Commitments • Signing of contract and • Contract Variations. <p>Having these provisions formally documented will ensure consistency and clarity of approach across the organisation, especially when there is a change in staff. We understand our recommendations will be considered for the updated procurement/contract policy.</p>	<p>Necessary</p>

<p>Procurement Strategy and Policy</p> <p>Align the current Procurement Strategy and Policy with best practice, with a view to having an integrated policy that can be used by the entire organisation.</p>	<p>In progress</p> <p>There is currently a work-in-progress Procurement and Purchasing Manual. Our communication with the Council consultant confirmed that they are aware of the audit recommendations and there is intention of incorporating these in the upcoming manual.</p> <p>In addition to our prior year recommendation, we also recommended the policy to include a discussion on how the Council addresses sustainability in its procurement.</p> <p>The same issue remains with the business rule in the procurement policy re one-up approval of purchases not being aligned with actual practice.</p> <p>We understand our recommendations will be considered for the updated procurement policy.</p>	<p>Necessary</p>
<p>Procurement and contract management practices</p> <p>Ensure the principles of transparency and value for money are followed for significant contracts.</p> <p>Review the appropriateness of the current financial delegations authority listing and ensure staff compliance.</p>	<p>Open</p> <p>Issue noted during testing of significant procurement. Refer to section 6.5 of this report.</p> <p>Issue noted in section 6.6 of this report.</p>	<p>Urgent</p> <p>Necessary</p>

Ensure subsequent variations to original contracts are formally signed by the relevant parties		Necessary	
<p>Conflicts of interest policy</p> <p>Review and update the Conflicts of Interest policy to reflect best practice in the sector.</p>	<p>Open</p> <p>The latest Conflict of Interest policy is dated May 2012. The issues raised last year remain outstanding. We recommend:</p> <ul style="list-style-type: none"> • Policy to be reviewed and endorsed by EMT. • The policy has a clearer mechanism on how breaches are handled or on what the consequences are for non-compliance. <p>We understand the policy is going to be reviewed as part of the review of the Accountability Framework.</p>	Beneficial	
<p>Legislative compliance</p> <p>Council to look at mechanisms to actively monitor compliance with legislative requirements.</p>	<p>Open</p> <p>System remains the same from prior year; there is no formal mechanism that actively monitors compliance with legislative requirements. Breaches are reported to council.</p>	Necessary	
<p>Expenditure – segregation of duties risk</p> <p>Amend the financial delegation system by restricting staff from approving payments relating to themselves.</p>	<p>Open</p> <p>System has not changed since prior year. We understand the OLR is going to be reviewed as part of the review of accountability framework.</p>	Urgent	<i>The implementation of the procurement strategy together with the OLR and AP workflow upgrade will address this issue.</i>
<p>Use of Mayor's credit card</p> <p>The Mayor's credit card should not be used for wider council expenditure; a council credit card should be set up for that purpose.</p> <p>Review and update the credit card policy to reflect best practice.</p>	<p>In progress</p> <p>We note that the mayor's credit card is still being used for operational expenditure, although the frequency has significantly reduced from prior year.</p> <p>We understand efforts are being made to reduce usage of the Mayor's credit card for operational purposes.</p>	Necessary	<i>Noted. Strong efforts have been made to reduce the usage of the Mayor's credit card. An alternative method for handling these payments is being considered as part of the procurement</i>

	<p>We note that the internal auditor's report also mentioned instances where the Mayor's credit card was used for entertainment and hospitality with the supporting documentation not having sufficient information to enable an assessment of the reasonableness of the expense.</p> <p>We understand the credit card policy will be reviewed and staff will be reminded of the policy.</p>		<p><i>strategy.</i></p> <p><i>We will remind people of the need to supply the appropriate supporting documentation.</i></p>
<p>Use of sensitive expenditure policy and staff handbook</p> <p>Review the staff handbook and the sensitive expenditure policy for consistency and eliminate conflicting policies.</p>	<p>Open</p> <p>Staff handbook and sensitive expenditure policy continue to have inconsistencies. These were also noted in the internal auditor's report dated 25 March 2015.</p> <p>We understand the policies will be reviewed as part of the review of the Accountability Framework</p>	Necessary	
<p>Mobile/PDA policy</p> <p>We recommend that the Mobile/PDA policy be reviewed in line with OAG guidelines.</p>	<p>Open</p> <p>No progress noted.</p>	Necessary	
<p>High annual leave balances</p> <p>Employees with excessive leave balances be encouraged to reduce their leave balances.</p>	<p>Open</p> <p>Annual leave balance is still increasing.</p> <p>Management advised that staff have been encouraged to take more leave.</p>	Necessary	
<p>Reports from the payroll system</p> <p>To improve the accuracy and monitoring of information coming out of the payroll system, we recommend that Council considers upgrading the system's reporting functions.</p>	<p>Open</p> <p>No change. Payroll reports are still very limited in functionality</p>	Urgent	
<p>Policy on deposits and bonds</p> <p>We recommend that the District Council 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</p>	<p>Open</p> <p>No policy has been adopted.</p> <p>Through our substantive work we can see that historical balances are still clearing, albeit slowly.</p>	Urgent	

as revenue.			
<p>Collectability of rates debtors</p> <p>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>Open</p> <p>Issue remains due to system limitation.</p>	Necessary	
<p>Fixed assets register reconciliations</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>In progress</p> <p>System has not changed from prior year. Reconciliation is still carried out at year end only.</p>	Necessary	<i>Plant and Equipment and Land and Buildings are being done. Infrastructure to do. Looking at how this will be done.</i>
<p>Depreciation</p> <p>We recommend that all significant capital additions are depreciated when the asset becomes available for use.</p>	<p>In progress</p> <p>Depreciation is at year-end. Council should review larger additions to check if depreciation should be recognised earlier.</p>	Necessary	
<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>Open</p> <p>Will be reviewed in next revaluation.</p>	Necessary	
<p>QA of contractor performance</p> <p>We recommend that:</p> <ul style="list-style-type: none"> • regular checks be performed on contractor performance, • information supplied by contractors for 	<p>Open</p> <p>Council need to perform a greater quality review over contractor performance. From our testing we identified a number of instances where contractor report forms were not filled out completely, were unable to be located or simply did not agree with what was recorded by the</p>	Urgent	

performance reporting be checked for authenticity, record evidence of these checks.	contractor or in the CRM. Section 2.1.2 of this report.		
<p>Reporting against performance measures</p> <p>We recommend that Council ensure there are appropriate systems in place for all its performance measure to enable reporting against them.</p> <p>Activity managers to prepare the non-financial performance results included in the Annual Report with an overview by the Group Manager.</p>	<p>In progress</p> <p>A number of instances were noted where Council did not have appropriate systems in place to report against performance measures. See section 2.1 of this report.</p> <p>We noted that activity managers have had greater input into the reported performance this year however this is still an area in which improvement can be made. We recommend that greater ownership is taken over the SSPs.</p>	Necessary	
<p>(IS) Organisational Business Continuity and IT Disaster Recovery</p> <p>Finalise and test the Organisational Business Continuity and IT Disaster Recovery.</p> <p>Formal test restores should be performed to ensure data can be recovered from tape</p>	<p>Open</p> <p>Test restores from backup have been performed successfully, however business continuity and disaster recovery planning have not been progressed</p>	Urgent	
<p>(IS) IT Risk Register</p> <p>Develop an IT risk register, including assessment of all risks. High risks should feed in to an overarching council risk register.</p>	<p>Open</p> <p>No progress has been made on this.</p> <p>We continue to recommend that an IT risk register be developed.</p>	Urgent	
<p>(IS) Process for adding / removing users to/from the network</p> <p>To ensure that only approved users have network access, a review of the existing process be completed and the following improvements made:</p> <ul style="list-style-type: none"> Enter "end dates" for all non-permanent staff so that their access terminates as soon as their contract ceases; 	<p>Open</p> <p>The process has not been improved. A full review of all users on the network was done by IT in February and many redundant users were deleted.</p> <p>Our testing this year noted 2 of the 5 users tested had left but IT had not been advised.</p> <p>There is no process in place for external organisation to advise IT when their staff leave, and passwords are not</p>	Necessary	

<ul style="list-style-type: none">• Students, temporary staff or contractors who are expected to come back to the council should have their access disabled, and re-enabled when required; and• HR should send IT details of all staff starting and leaving.	changed to prevent these people continuing to log in remotely.		
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Matters that have been resolved

Recommendation	Outcome
<p>Asset management</p> <p>Ensure there are appropriate Asset Management Plans for its key asset categories that are regularly updated and should inform the forecasting processes employed by Council, for both financial and service performance.</p>	<p>Closed</p> <p>There are now Asset Management Plans in place and these were deemed of good quality during the LTP review process</p> <p>There are improvement areas that have been identified with work to be done to improve confidence ratings over the reliability of the data and knowledge of underground asset condition. We are satisfied that there are appropriate plans in place to address this going forward</p>
<p>Financial Delegation Policy</p> <p>Review financial delegation authority in place for reasonableness.</p>	<p>Closed</p> <p>The financial delegation authority has been updated since our last review. This is now dated December 2014.</p>
<p>Development contributions</p> <p>Improve robustness in the review of accounting for development contributions and ensure continuity procedures are in place during changes of staff.</p>	<p>Closed</p> <p>As development contributions policy is no longer applicable from 1 July 2015 this is no longer a risk for Council. Existing development contributions should continue to be reviewed to ensure the accounting treatment is appropriate.</p>
<p>Parking infringement revenue</p> <p>Review authorisation of “provision for tickets gone to court” in relation to parking infringement revenue.</p>	<p>Closed</p> <p>Under IPSAS the Council’s accounting treatment of the provision is correct with the provision for “tickets gone to court” being netted off revenue. However, for transparency purposes the Council may wish the amount provided for to be reported to Council on a regular basis.</p>
<p>Fraud risk assessment</p> <p>Carry out a fraud risk assessment.</p>	<p>Closed</p> <p>A fraud risk assessment has been carried out by the internal auditor which identified improvement opportunities for the Council.</p>

Recommendation	Outcome
<p>Review of journals</p> <p>Council needs to establish a system to ensure that journals are independently reviewed on a one up basis and that supporting documentation for each journal can be readily located.</p>	<p>Closed</p> <p>There are still instances where journals are reviewed on a peer basis. Management has accepted this risk.</p>
<p>Bank reconciliations</p> <p>We recommend that bank reconciliations be prepared in a timely manner and reconciling issues be resolved with the FMIS supplier.</p>	<p>Closed</p> <p>There were no issues noted with timeliness of bank reconciliations.</p>
<p>Lack of reconciliation between Levin Aquatic Centre's Centaman and Council's Authority</p> <p>Reconcile the Levin Aquatic Centre's Centaman system and Council's Authority system on a regular basis.</p> <p>Independently review the reconciliation and provide evidence of review.</p>	<p>Closed</p> <p>Invoicing has moved into Authority so need for reconciliation has been eliminated.</p>
<p>Rates</p> <p>Ensure consistency of the terminologies used in the Funding Impact Statement in the Annual Plan and in the rates resolution.</p>	<p>Closed</p> <p>No inconsistencies found during our review.</p>
<p>Review of rates strike against the Annual Plan</p> <p>We recommend that Council ensures there is consistency in the information contained between its rates strike and the Annual Plan.</p>	<p>Closed</p> <p>No inconsistencies found during our review.</p>
<p>Service Performance Reporting</p> <p>Ensure the Annual Report is reporting against the performance measures and targets in the Annual Plan.</p> <p>Ensure the 2014 survey results are reported in the 2014/15 Annual Report.</p>	<p>Closed</p> <p>Annual report has reported against performance measures and targets included in the annual plan</p> <p>Review of annual report showed that survey results from 2014 have been included</p>
<p>QA of summary annual report</p> <p>We recommend that the draft summary annual report is subject to internal peer review before being presented to audit.</p>	<p>Closed</p> <p>No significant issues identified during our review.</p>

Recommendation	Outcome
Tenders subcommittee documentation All decisions made by the Tenders subcommittee be recorded in the minutes.	Closed No significant issues identified during our review.

Appendix 5: 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 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 Horowhenua District Council's financial statements for the year ended 30 June 2015, 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>In addition to this audit, we carried out an assurance review of the District Council's Debenture Trust Deed and the audit of the District Council's 2015 to 2025 Long-Term Plan, which are compatible with those independence requirements. Other than this audit, and these assignments, 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 Horowhenua 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 Horowhenua 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>