AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the interim audit of

Thames-Coromandel District Council

for the year ended 30 June 2018

Key messages

Summary

The interim report outlines the results of our audit work to date on Thames-Coromandel District Council (the Council) for the year ended 30 June 2018 and includes the results of our work from the interim audit visit.

The primary purpose of our work has been to update our understanding of the Council's control environment and gain an understanding of the issues facing the Council and how these are being addressed. We also reviewed the internal control systems and identified key controls that could be relied on for audit purposes.

We performed a high level review of the Council's control environment. We considered the overall attitude, awareness, and actions of management in establishing and maintaining effective internal controls. Overall we are satisfied the control environment is effective for the purposes of undertaking an efficient and effective audit.

We do have concerns about reported service performance when the Council is reliant on information provided by external service providers. We are currently working with management in an effort to resolve this item.

As reported in my LTP management letter we are also working with management on how to best ensure presentation of our audit findings in a way that can extract the most value out of the audit process. This includes co-ordinating how release dates for our reports align with the Council and Committee meeting timetables and your overall work programme.

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Issues identified during the audit

The following table summarises our recommendations and their priority:

Recommendation	Urgent	Necessary	Beneficial
We recommend that management independently verify service provider performance information.	✓		
We recommend that at year-end, the performance information measure *"flooding of habitable floors as a result of a flooding event"*, includes detail as to how the Council obtained data for the measure outlining the limitations over how accurate the data is.	✓		
We recommend that all customer service officers apply the correct payment options when receipting, use their own logins at all times and that management regularly review receipt cancellation activity to ensure it is minimised and for a valid reason.		✓	
We recommend that management ensure that the operation of payroll processes and controls are regularly monitored to ensure that key controls are operating effectively.		✓	

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

Thank you

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

Athol Graham
Audit Director
28 September 2018

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1 Assessment of your control environment

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

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

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

Internal controls

We reviewed the internal controls in place for your key financial and non-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 and non-financial reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the Council and management. Both "design effective" and "operationally effective" internal control is important to minimising the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the governing body.

2 Control environment issues

2.1 Performance reporting

For performance reporting for roading, water, stormwater and wastewater the Council is reliant on performance information provided by Council's external service providers. However, we understand that for contract management purposes the service provider's performance is monitored with reference to that performance information (amongst other things). We understand that, to some extent, the Council reviews the performance information results provided by the service providers. However, during our interim work we were unable to establish whether or not the Council had verified the reliability of the data used to support the service provider's reports.

In order for us to gain assurance that the performance information provided by the service providers is reliable and

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

[2] The control has operated effectively throughout the period tested.

accurate we will require evidence of the Council's verification of this data.

As a result we recommend that management independently verify service provider performance information before inclusion in the annual report.

Management comment

Management have been working with audit to ensure that sufficient evidence is obtained to verify these performance measures.

2.2 Stormwater performance measure completeness

Information to report against the mandatory measure "flooding of habitable floors as a result of a flooding event" is in large part dependant on information obtained from the Fire Service or Civil Defence. This is because flood events are often reported to these agencies rather than the Council. We understand that the Council staff maintain contact with the Fire Service and Civil Defence to help ensure all flooding events are reported against. However, information received from these entities is not verified.

We recommend that at year-end, the performance information measure "*flooding of habitable floors as a result of a flooding event*", includes detail as to how the Council obtained data for the measure outlining the limitations over how accurate the data is.

Management comment

More disclosure has been included in the annual report on this measure.

2.3 Improvements for cash receipting and user login process

During our review of the cash receipting process we noted that staff members are not always using their own logins when working on the system.

In addition to this, we have noted a number of cancelled receipts during the year as a result of incorrect receipt allocation (that is, EFTPOS instead of credit card).

We recommend that all customer service officers apply the correct payment options when receipting, use their own logins at all times and that management regularly review receipt cancellation activity to ensure it is minimised and for a valid reason.

Management comment

The Customer Services staff have be advised that using other staff member's logins is unacceptable. The receipt cancellation issue has been resolved with further training of staff.

2.4   Payroll

During our testing of controls over payroll we identified two instances of control breakdowns leading to very minor over payments to staff.

We are satisfied that management had already identified and rectified these matters demonstrating that compensating detect controls (that is, controls that pick up issues after the event rather than preventative controls) were working. But these instances reinforce the need for constant monitoring of the operation of more effective preventative controls over payroll.

We recommend that management ensure that the operation of payroll processes and controls are regularly monitored to ensure that key controls are operating effectively.

Management comment

Management will ensure that payroll preventative processes and controls in place are reinforced with HR staff.

3   Summary of recommendations from previous audits

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
4	Matters that have been resolved
1	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 2, updated where appropriate through our interim audit. We will report against all prior year items in our final management letter.

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Appendix 1   Explanation of priority rating system

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

Urgent Major improvements required	**Needs to be addressed *urgently*** These recommendations relate to a serious deficiency that exposes the 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 six 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 six to 12 months*** These recommendations relate to deficiencies that result in the Council falling short of best practice. These include weakness 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.

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Appendix 2   Status of recommendations

Outstanding matters

Recommendation	Current status	Priority	Management's proposed action
Contract management and project management			
The Council continues to develop a formal centralised contract management system, with adequate policies, and procedures.	**Outstanding** This issue was raised during the 2015/16 year. The reports produced by KPMG have not been actioned further. No work has been performed to address our recommendations regarding this issue.	Urgent	*Management will consider audit's recommendations when making improvements to contract management and project management.*

Matters that have been resolved

Recommendation	Outcome
General Ledger reconciliations	
The Council needs to ensure that reconciliations are performed and reviewed in a timely manner. There is a consistency issue as well as some accounts are reconciled (prepared and reviewed) timely and others are not. This function needs to be performed consistently between all the accounts being reconciled.	Through testing performed, we did not identify any instances where the reconciliations have not been prepared and reviewed in a timely basis.

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Recommendation	Outcome
Lack of segregation of duties	
One-up approval as per the system is adhered to. Management should avoid situations where there is management override of the system (in this case, getting someone else to raise a PO for their own expenditure request then approving the expense themselves).	We have not identified any instances of management override of the management control to ensure one-up approval of purchase orders.
Network passwords that never change	
Passwords for network user accounts should expire regularly in accordance with the Council's Policy.	We obtained a current listing of the network user accounts with passwords that will never expire and their associated password settings. We reviewed these user accounts with the Network Engineer and found that they are related to Library and Civil Defence use and have restricted access rights.
Redundant network user accounts	
Unused network user accounts should be disabled after a reasonable period of non-use.	We obtained an Active Directory (AD) list and noted that there were several network user accounts that appeared to have not been used for over six months. A review of these unused accounts were shown to be "Expired" and not usable.

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