

**Report to the Council
on the audit of
Thames-Coromandel
District Council**

For the year ended 30 June 2018

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Key messages

We have completed the audit for the year ended 30 June 2018. This report sets out our findings from the audit and draws attention to areas where Thames-Coromandel District Council (the District Council) is doing well and where we have made recommendations for improvement.

Audit opinion

We issued an unmodified audit opinion on 30 October 2018.

Significant matters progressed during the audit

Management have been working with the water and wastewater service provider to ensure they implement systems that enable more effective contract management and verifiable performance reporting. For the period under review, the performance reported by the service provider to Council was difficult for Council to verify. We considered corroborating information, held by Council independently of the service provider, to support the performance reported in the Annual Report (*refer to 4.1 below*).

Agreements between the Ministry of Education (MOE) and the Council relating to the Indoor Sports Facility were executed on 27 September 2018. We understand that delays in signing were due to matters beyond Council's control. We recommend that the Council ensure remaining contractual arrangements with the Ministry and Thames High School are finalised as soon as possible (*refer to 3.1 below*).

Thank you

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



Athol Graham
Appointed Auditor
1 March 2019

1 Recommendations



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

Priority	Explanation
Urgent	<p>Needs to be addressed <i>urgently</i></p> <p>These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.</p>
Necessary	<p>Address at the earliest reasonable opportunity, <i>generally within six months</i></p> <p>These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.</p>
Beneficial	<p>Address, <i>generally within six to 12 months</i></p> <p>These recommendations relate to areas where the District Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.</p>

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p>Termination agreements</p> <p>We recommend that when negotiating employee termination agreements management consider the guidance issued by the OAG – Severance Payments: A Guide for the public sector.</p>	3.2	Necessary
<p>Response to service requests – water and wastewater</p> <p>We recommend that as part of its contract management processes, management implements systems to ensure response times to service requests are accurate. This would include using the mechanisms available under contractual terms to independently verify the systems and data collated and reported by the contractor.</p>	4.1	Urgent

Recommendation	Reference	Priority
<p>Holiday Act breach assessment</p> <p>We recommend that the Council performs an assessment of the accuracy of Holiday Pay calculations within its payroll systems based on the requirements of the Holiday Act 2003.</p>	4.2	Necessary

1.2 Interim management report

The findings from our interim audit visit were reported in the interim management report dated 28 September 2018. This report should be read in conjunction with the interim audit report.

1.3 Status of previous recommendations

The status of each matter that was outstanding in last year's report to the District Council, which have not already been addressed in our interim report, are set out below is a summary of the action taken against previous years' recommendations.

Appendix 2 sets out the status of previous year's recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	0	2	1	3
Implemented or closed	0	2	2	4
Total	0	4	3	7

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 30 October 2018. This means we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered a number of matters. Refer to sections 3 and 4 for further detail on these matters.

2.2 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.

All significant misstatements identified during the audit have been corrected.

2.3 Uncorrected disclosure deficiencies

All disclosure deficiencies identified during the audit have been corrected.

2.4 Uncorrected performance reporting misstatements

All performance reporting misstatements identified during the audit have been corrected.

2.5 Quality and timeliness of information provided for audit



Management is required to provide information for audit relating to the annual report of the District Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management on 5 April 2018. This included the dates we required the information to be provided to us.

All information was supplied to us in the agreed timelines and were of a good standard.

3 Matters raised in the Audit Plan



In our Audit Plan dated 5 April 2018, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
3.1 Indoor sports facility - agreement review	
<p>Construction of the indoor sports facility in conjunction with the MOE on MOE land is likely to be completed during the current year.</p> <p>While Council has paid for and will own the facility it is envisaged that there will be a shared use agreement in place and a peppercorn rental over the land on which the facility is located.</p>	<p>The facility opened on 28 February 2018 and the main agreements between the MoE and the District Council relating to the Indoor Sports Facility were executed on 27 September 2018.</p> <p>We understand that the delay in signing the agreements was due to matters beyond Council’s control. This delay did raise some concerns about whether there were issues with the agreement that may mean Council did not have a legal right to use the land on which the sports facility was constructed. Once we raised our concerns management escalated the issue with the Thames High School and the agreement was signed at the next opportunity.</p> <p>We all understand that all minor remaining contractual agreements have been executed subsequent to the audit opinion date 30 October 2018.</p> <p>At balance date and as anticipated the building improvements have been capitalised by the District Council. The ancillary lease and licence agreements are considered to be exchange transactions and do not give rise to any recognition or disclosure requirements within the financial statements.</p> <p>At some point in the future management will need to consider recognition of a make good provision but at this point the amount is immaterial.</p> <p>Management comment</p> <p><i>The contractual arrangement between MoE and Thames High School was finalised and signed by all parties on 23 August 2018 as</i></p>

Audit risk/issue	Outcome
	<i>disclosed in note 28 – Events after balance date of the Annual Report.</i>
3.2 Payroll disclosures	
<p>We understand that during the year Council has entered into a number of termination of employment agreements with staff, including Key Management Personnel (KMP).</p> <p>There are specific reporting requirements under GAAP and the Local Government Act 2002 (the Act) for certain types of payments made in these circumstances.</p> <p>We understand that Council will have a legal review completed on the proposed Local Government Act disclosures in relation to these payments.</p>	<p>Management did complete a review of the termination agreements ahead of the final audit and the Annual Report disclosures are adequate and comply with GAAP and the Local Government Act 2002 (the Act) requirements.</p> <p>Given the size of the payments made we continue to highlight the need for Council to ensure that severance payments to employees reflect a soundly based decision to settle, are reasonable and appropriate in the circumstances and observe appropriate standards of probity and integrity.</p> <p>We recommend that when negotiating employee termination agreements management consider the guidance issued by the OAG – Severance Payments: A Guide for the public sector. Refer to link below:</p> <p>https://www.oag.govt.nz/2012/severance-payments/docs/severance-payments.pdf</p> <p>Management comment</p> <p><i>The severance payments disclosed in the Annual Report occurred as a result of a major restructure of the organisation during the 2017/18 financial year.</i></p> <p><i>Management are satisfied that a sound process was followed and the resultant exit packages to affected persons were reasonable for the size and scale of the restructure. We note advice around sector guidance and any other available information regarding severance payments.</i></p>

Audit risk/issue	Outcome
3.3 Treasury management	
<p>Council will update its Liability Management Policy through the 2018 Long-Term Plan (LTP) process. This will include further guidance on treasury operations.</p> <p>We also understand that Council has engaged PwC to provide advice on treasury operations including hedging arrangements for debt instruments.</p>	<p>The District Council's Liability Management Policy was updated through the 2018 LTP process. We understand that management continue to take advice on treasury operations, and particularly interest rate hedging mechanisms.</p> <p>This advice includes whether to hold or terminate a legacy interest rate swap with no corresponding debt position.</p>
3.4 Reserve contribution credits	
<p>Council's balance sheet carries a provision in relation to a deed entered into with a developer in 2004 whereby reserve assets were subsequently vested to Council in anticipation of Development Contributions on a development in Whitianga. We understand that the District Council will undertake a review of this arrangement prior to balance date.</p>	<p>Management reviewed the accounting for the reserve contribution credits late in the audit process. However, we understand that management plan to do a more comprehensive review of records for this arrangement to ensure it is and remains up-to-date.</p> <p>We have updated our understanding of the DC liability and reviewed the applicable calculations for the 2017/18 year.</p>
3.5 Financial strategy	
<p>Through our work on Council's LTP consultation document we are aware of potential changes to Council's financial strategy, including how Council will manage rates, debt, internal borrowing and investments in the future.</p>	<p>Please refer to our final LTP management report for our comments on changes to Council's financial strategy. This is an area we will continue to monitor as Council prepares their financial and infrastructure strategies and for the next LTP.</p>
3.6 The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</p> <p>Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>From work performed, we have not identified any instances that would indicate management override or bias.</p>

4 Audit focus areas



4.1 Response to service requests – water and wastewater

During the audit we noted that management was reliant on information provided by its water and wastewater service provider for performance measures relating to fault response times. We also noted that management and the service provider were in the process of implementing a process to improve record keeping and we anticipate that this will enable more effective contract management and performance monitoring going forward.

For the period under review, the performance reported by the service provider was difficult for Council to verify. We considered other corroborating information held by Council independently of the service provider to support the performance reported in the Annual Report. In addition to this Council noted in the Annual Report that they had not verified the information.

Recommendation

We recommend that as part of its contract management processes, management implements systems to ensure response times to service requests are accurate. This would include using the mechanisms available under contractual terms to independently verify the systems and data collated and reported by the contractor.

Management comment

A process has been put in place for staff to carry out regular checks of response times throughout the year. In addition, TCDC staff have access to the contractor's asset management system and monitor contractor responses to call outs in real time.

4.2 Holiday Act breach assessment

Compliance with certain provisions of the Holiday Act 2003 has been an issue in the public sector over the past few years. To date Council has not performed a formal assessment for any non-compliance or potential liability that may exist as a result of breaches of the Holiday Act.

Recommendation

We recommend that the District Council performs an assessment of the accuracy of holiday pay calculations within its payroll system, based on the requirements of the Holiday Act 2003.

Management comment

Management have contracted TCDC's payroll services contractor to perform an audit of holiday pay calculations. This is scheduled to occur in the New Year.

4.3 Land under roads valuation

Council's regular Property, Plant and Equipment (PPE) valuation includes Land under Roads. We understand that this practice will cease going forward and that land under roads will then be carried at deemed cost being the current net book value. We agree with this treatment. In next year's Annual Report the Council should provide a disclosure in the notes to the financial statements describing this change in accounting policy as set out in PBE IPSAS 3.34.

5 Public sector audit



The District Council is accountable to its local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the District Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the District Council carrying out its activities effectively and efficiently;
- the District Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the District Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

We did not note any areas of concern from our work completed over the above matters. We were able to conclude that the District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

6 Useful publications



Based on our knowledge of the District Council, we have included some publications that Council and management may find useful.

Description	Where to find it
Client updates	
<p>In March 2018, we hosted a series of client updates. The theme was “Our high performing and accountable public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p>	<p>On our website under publications and resources.</p> <p>Link: Client updates</p>
Model financial statements	
<p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	<p>On our website under publications and resources.</p> <p>Link: Model Financial Statements</p>
Tax matters	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under publications and resources.</p> <p>Link: Tax Matters</p>
Data in the public sector	
<p>The Office of the Auditor-General (OAG) has published a series of articles about how data is being used in the public sector. These cover:</p> <ul style="list-style-type: none"> • functional leadership; • building capability and capacity; • collaboration; and • security. 	<p>On the OAG’s website under publications and resources.</p> <p>Link: Data in the public sector</p>

Description	Where to find it
Matters arising from the 2016/17 audits	
The OAG has published a report on the results of the 2016/17 audits for the sector.	On the OAG’s website under publications and resources. Link: Recent publications
Audit Committees	
The OAG has released various best practice information on Audit Committees.	On the OAG’s website under “Our Work – Audit Committee Resources” Link: Audit Committee Resources
Infrastructure as a Service	
The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved.	On the OAG’s website under publications and resources. Link: Infrastructure as a Service

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
High annual leave balances		
Staff with high annual leave balances should be encouraged to take annual leave. Alternatively the District Council could consider offering staff the option to cash-out one week of their annual leave balance in accordance with the Holidays Act 2003.	2017	At our final audit for 2018 year we confirmed that these leave balance remain high. Matter outstanding
Overdue policy reviews		
Council should perform a review of policies as soon as possible. The policy register should be maintained and kept as up to date as possible which will allow for easy identification of policies that are due for review or been recently reviewed.	2016	We noted that a number of policies were updated and adopted in June 2018 for the 2018-2028 LTP. We commend Council on the effort to update the policies and continue to recommend that those policies that are out of date are updated at the earliest opportunity. We also continue to recommend that the policy register is kept up to date. In-progress
Beneficial		
Infrastructure peer review suggested improvements		
Council should implement the valuers' recommendations to improve asset management planning and the quality of data used for future valuations. Most issues to be addressed subsequent to asset management system transition to Assetfinda.	2016/ 2017	Asset Managers are still in the process of adapting to the new system, Assetfinda. No progress has been made on the recommendations from the prior year and we continue to recommend that these are addressed. Matter outstanding

Implemented or closed recommendations

Recommendation	First raised	Status
Stormwater Performance Measure Completeness		
At year-end, narrative within the SSP included detail as to how Council obtains the data for this storm water measure.	Interim 2018	Per our review of the draft annual report 2017/18 we confirmed that the narrative recommended has been included. Issue closed
Private use of credit card		
We recommend continuing to monitor the use of credit cards.	2017	Through our testing performed we did not identify private use of the credit card. Issue closed
Rates variance between JDE and pathways		
Council performs monthly reconciliations between the general ledger and pathways.	2016	We confirmed during our testing that there was an insignificant variance between the two systems amounting to \$9k over the entire rates strike. As such we have closed this recommendation. Issue closed
Outcomes disclosure reporting		
Council improves the reporting surrounding their outcomes to ensure that all requirements of the Local Government Act, Part 3 section 23 is addressed.	2017	We have confirmed that the District Council outcomes presented in the annual report address the recommendation and legislative requirements regarding this disclosure. Issue closed

Appendix 2: 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 performance information 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. Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that is immaterial to your financial statements. Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit of the audited information and our report on the disclosure requirements, we have audited the District Council's 2018-28 LTP, performed a limited assurance engagement related to the District Council's debenture trust deed and provided assurance services in relation to procurement processes undertaken by the District Council. These are compatible with the independence requirements. Other than these engagements we have no relationship with or interests in the District Council.</p>
Fees	<p>The audit fee for the year is \$142,855 (excluding disbursements), as detailed in our Audit Proposal Letter dated 2 June 2017. Other fees charged in the period are:</p> <ul style="list-style-type: none"> • \$116,000 for the audit of the 2018-28 Long-term plan; and • \$4,000 for the audit of the Debenture Trust Deed for year ended 30 June 2018.
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit. We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year.</p>

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

PO Box 1165
Auckland 1140

www.auditnz.govt.nz

