



FINANCE, AUDIT AND RISK COMMITTEE

Agenda

NOTICE OF MEETING

An ordinary meeting will be held in the Supper Room, Waihinga Centre, Texas Street, Martinborough on Wednesday 21 October 2020 at 2:30pm. The meeting will be held in public (except for any items specifically noted in the agenda as being for public exclusion).

MEMBERSHIP OF THE COMMITTEE

Councillors Leigh Hay (Chair), Pam Colenso, Garrick Emms, Brian Jephson, Brenda West, Ross Vickery and Mayor Alex Beijen. Independent member: Kit Nixon

Open Section

Health and Safety Procedures

- A1.** Apologies
- A2.** Conflicts of interest
- A3.** Public participation
As per standing order 14.17 no debate or decisions will be made at the meeting on issues raised during the forum unless related to items already on the agenda.
- A4.** Actions from public participation
- A5.** Extraordinary business
- A6.** Minutes for Confirmation: Finance, Audit and Risk Committee
Minutes of 20 August 2020
Proposed Resolution: *That the minutes of the Finance, Audit and Risk Committee meeting held on 20 August 2020 are confirmed as a true and correct record.*
- A7.** Notices of motion

Pages 1-3

B. Information and Verbal Reports from Chief Executive and Staff

- B1.** Financial Reports Pages 4-24
- B2.** Insurance and Risk Management Page 25
Verbal Report from Darren Williamson of Marsh Insurance
- B3.** Interim Audit Report Pages 26-48

C. Public Excluded Business

- C1.** Operational Risk Register Pages 1-11PE
- C2.** Draft 30 June 2020 Financial Statements Pages 12-17PE
- C3.** Wellington Water Ltd Audit Update Pages 18-22PE

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

Report/General Subject Matter	Reason for passing this resolution in relation to the matter	Ground(s) under Section 48(1) for the passing of this Resolution
Operational Risk Register	Good reason to withhold exists under section 7(2)(c)(i) and section 7(2)(c)(ii)	Section 48(1)(a)
Draft 30 June 2020 Financial Statements	Good reason to withhold exists under section 7(2)(c)(i) and section 7(2)(c)(ii)	Section 48(1)(a)
Wellington Water Ltd Audit Update	Good reason to withhold exists under section 7(2)(c)(i)	Section 48(1)(a)

This resolution is made in reliance on Section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

Reason for passing this resolution in relation to the matter	Ground(s) under Section 48(1) for the passing of this Resolution
The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source and is in the public interest that such information should continue to be supplied	Section 7(2)(c)(i)
The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest	Section 7(2)(c)(ii)



FINANCE, AUDIT AND RISK COMMITTEE Minutes from 20 August 2020

Present:	Councillors Ross Vickery (Chair), Pam Colenso, Garrick Emms, Brenda West, Mayor Alex Beijen and independent member Kit Nixon.
In Attendance:	Katrina Neems (Chief Financial Officer), Harry Wilson (Chief Executive Officer), Charly Clarke (Finance Manager) and Suzanne Clark (Committee Advisor)
Conduct of Business:	The meeting was held in the Supper Room, Waihinga Centre, Texas Street, Martinborough and was conducted in public between 9:30am and 9:55am except where expressly noted.

Open Section

Mrs Neems, the Chief Financial Officer assumed the Chair.

Mrs Neems called for nominations to chair the 20 August 2020 meeting.
Cr Emms nominated Mayor Beijen.

Mayor Beijen nominated Cr Vickery.
This was seconded by Cr Colenso.

There being only one nomination that was seconded, Cr Vickery was declared Chair for the 20 August 2020 meeting.

Cr Vickery assumed the Chair.

A1. Apologies

FINANCE, AUDIT AND RISK RESOLVED (FAR2020/13) to accept apologies from Cr Leigh Hay and Cr Brian Jephson.

(Moved Cr West/Seconded Mayor Beijen)

Carried

A2. Conflicts of Interest

There were no conflicts of interest declared.

A3. Public Participation

There was no public participation.

A4. Actions from Public Participation

There were no actions from public participation.

A5. Extraordinary Business

There was no extraordinary business.

A6. Minutes for Confirmation

FINANCE, AUDIT AND RISK RESOLVED (FAR2020/14) to confirm that the Finance, Audit and Risk Committee minutes from the meeting held 24 June 2020 are a true and correct record.

(Moved Cr Colenso/Seconded Cr Emms)

Carried

A7. Notices of Motion

There were no notices of motion.

B Decision Reports from Chief Executive and Staff

B1. Customer Satisfaction Survey Report

Members discussed what effect a delay would have on the Council's Annual Report audit and sought assurance from Council officers that when the survey project did get underway that Council would look wider than the current provider.

Council officers undertook to ensure the Council organisation chart was updated.

FINANCE AUDIT AND RISK COMMITTEE RESOLVED (FAR2020/15):

1. To receive the Customer Satisfaction Survey Report.

(Moved Cr West/Seconded Cr Colenso)

Carried

2. To recommend to Council to defer conducting the Customer Satisfaction Survey until early in 2021.

(Moved Cr Colenso/Seconded Mayor Beijen)

Carried

C Information and Verbal Reports from Chief Executive and Staff

C1. Financial Report

Council officers answered members' questions on the number of rates arrears and rates rebates compared to previous years, the process for communicating the availability of rates rebates, the rates rebates legislation, the Audit NZ scheduled delay in auditing SWDC, the change in deadline to 31 December 2020 to adopt the Annual Report, and the cost of audits and Audit NZ's monopoly.

FINANCE AUDIT AND RISK COMMITTEE RESOLVED (FAR2020/16) to receive the Finance Report.

(Moved Cr Emms/Seconded Mayor Beijen)

Carried

C2. Action Items Report

Members discussed fleet updates and replacement with Council officers.
FINANCE AUDIT AND RISK COMMITTEE RESOLVED (FAR2020/17) to receive the
Action Items Report.
(Moved Cr West/Seconded Cr Colenso)

Carried

C3. Review of Risk Register Report

Item withdrawn.

Confirmed as a true and correct record

.....(Chair)

.....(Date)

FINANCE, AUDIT AND RISK COMMITTEE

21 OCTOBER 2020

AGENDA ITEM B1

FINANCE REPORT

Purpose of Report

To present the Finance Report for October 2020.

Recommendations

Officers recommend that the Committee:

1. *Receive the Corporate Services Report.*

1. Executive Summary

Officers present the following Reports for review by the Finance, Audit and Risk Committee:

- Financial statements to 31 July 2020
- Financial statements and commentary to 31 August 2020
- Investment Policy
- Rates arrears report to 30 September 2020
- NZTA review of subsidy
- Wellington Water Limited
 - Capex
- Unbudgeted costs
- Unplanned use of Reserves

2. Financial and Other Reports

2.1 Financial Statements

The financial statements for 31 July 2020 and two months to 31 August 2020 are attached and are presented at this meeting for review. (See Appendix 1 and 2).

Commentary on material variances in the first two months of this financial year are included with the August financial reports.

2.2 Investment Policy

SWDC's investment policy provides that investments should be spread around a number of financial institutions to reduce the risk of loss to Council.

Clause 2 of the Investment policy covers the 30% rule:

- *The maximum amount to be invested with any one approved institution is 30% of Council's total investments except for the Wairarapa Building Society which shall be 10%.*
- *Occasional and short term exceedances of the 30% rule are allowed, such exceedances are to be reported to the Audit and Risk Working Party [Finance, Audit and Risk Committee].*

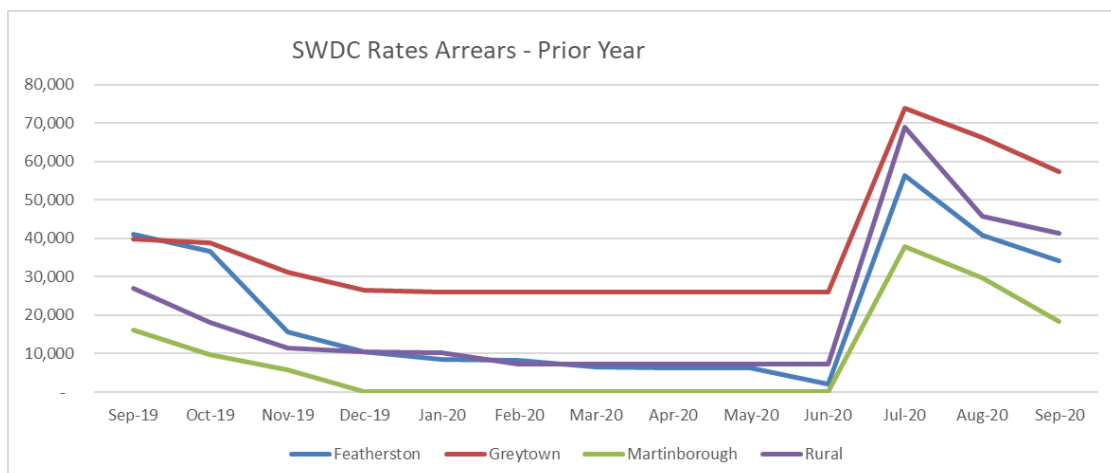
It should be noted that since the last report to Finance Audit and Risk there have been 4 incidences of investments exceeding the 30% threshold at the end of the month:

June 2020	BNZ term deposits exceeded limit (35%) ASB term deposits exceeded limit (36%)
July 2020	BNZ term deposits exceeded limit (35%) ASB term deposits exceeded limit (33%)
August 2020	No exceedances

Although there have been four instances in the last few months where the 30% threshold has been exceeded, this has not resulted in any loss to Council and the risk is considered very minor due to the stability of the banks the term deposits are held with. Council staff choose investments to maximise the return via interest payments which sometimes necessitates exceeding the 30% rule. The Policy allows for such exceedances.

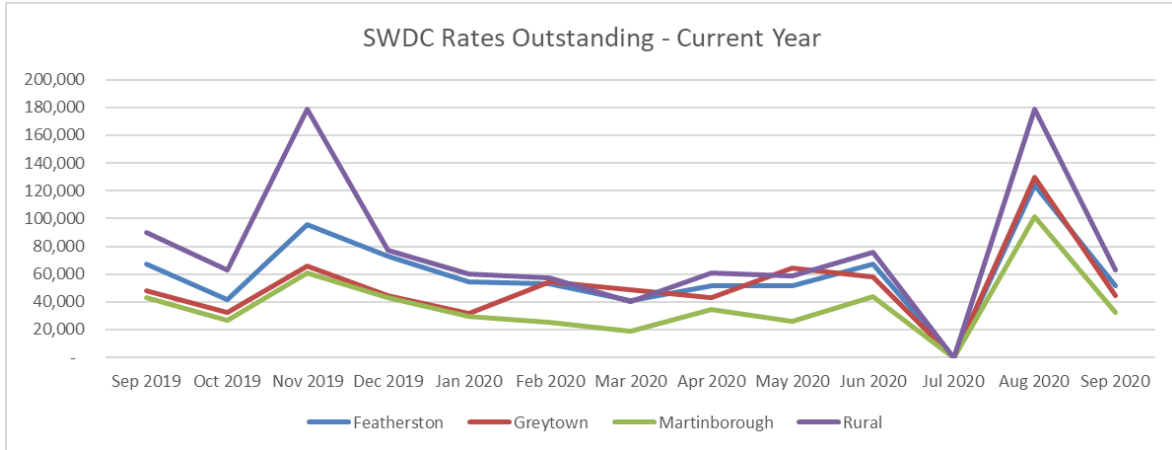
2.3 Rates Arrears

The rates arrears graphs below shows an increase in amount of unpaid rates carried forward from the previous year (2019/20).

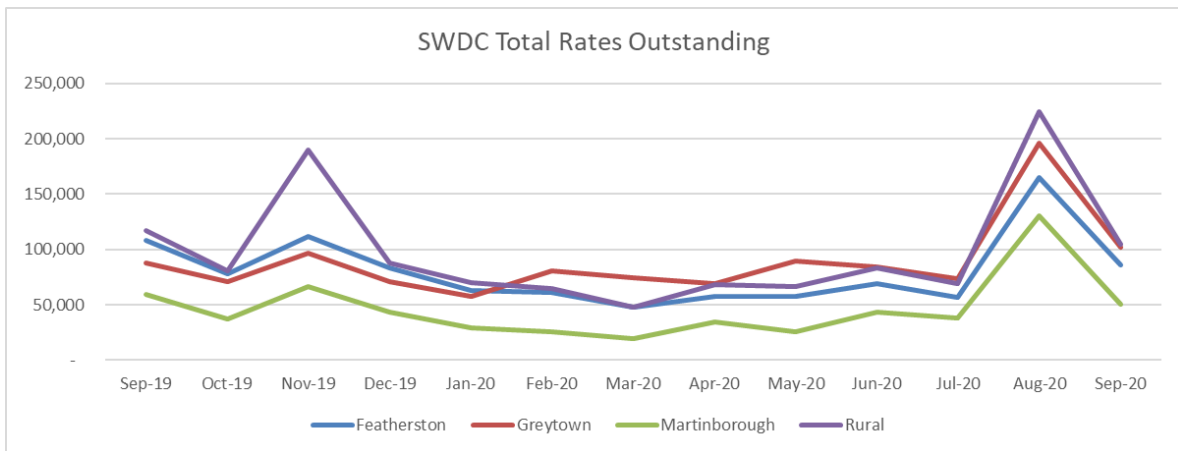


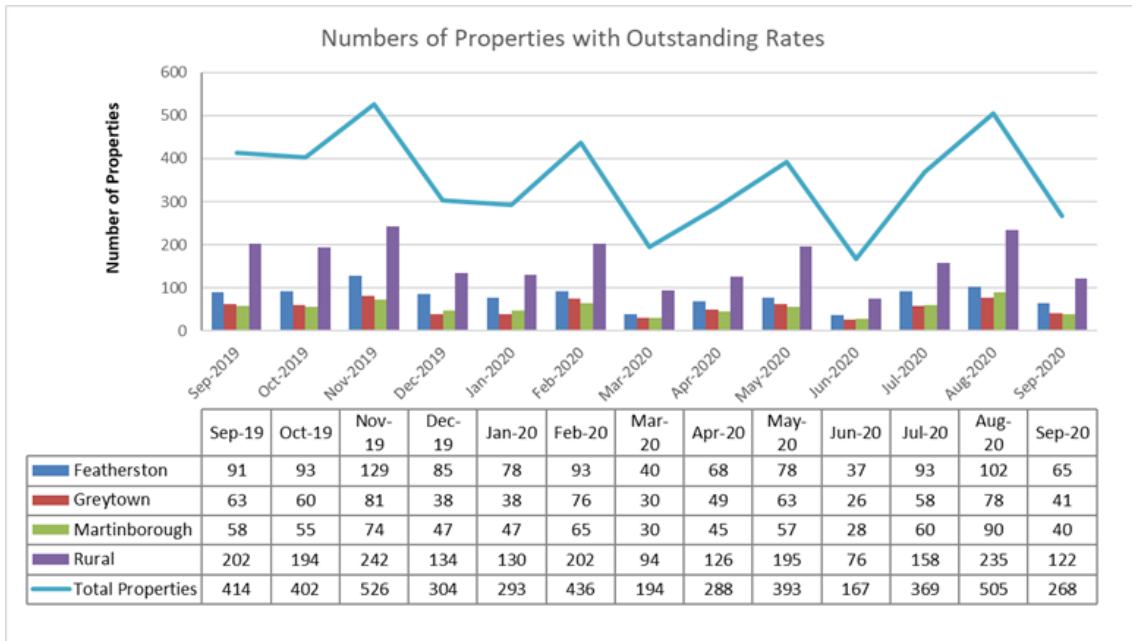
Prior years arrears have increased \$31k (22%) from the same time last year. Commercial properties have seen the highest increase.

At the end of September 2020, the current years arrears amount was \$192K, 29% lower than the same time last year.



Total rates outstanding have decreased by \$29k (9%) from the same month last year. Outstanding rates were \$372k in September 2019 to \$343k September 2020.





The number of properties with outstanding rates has decreased significantly from 414 in September 2019 to 268 in September 2020.

The rates team continues to actively promote direct debits and payment plans to assist ratepayers with financial difficulties.

2.4 NZTA (Waka Kotahi) Funding Assistance Rates (FAR)

In August 2020, Euan Stitt, Partnerships and Operations Manager, reported to Assets and Services Committee an update to the changes in FAR rates which will take effect from 1st July 2022.

Waka Kotahi NZ Transport Agency Board has set the Funding Assistance Rates (FAR) for the 2021-24 National Land Transport Programme.

In setting the FAR now, the Board are providing Councils with certainty about funding arrangements so we can complete the planning and budgeting required for Council's Regional Land Transport Plans (RLTPs), and your Long Term Plan.

The SWDC rate for the 2021-24 National Land Transport Programme is 51%. This is a 1% reduction from the 2018-21 National Land Transport Programme and equates to an approximately \$40k pa reduction in funding for SWDC. This reduction will take effect in the 2022-23 Financial Year.

The transition for the Special Purpose Rd (Cape Palliser Road) has yet to be agreed through the 2021-2024 NLTP. As at 1 July 2024 the FAR Rate will be 51% a reduction from 2018-21 NLTP of 100%. The impact of this on Council is currently being quantified and projected.

These changes will be factored into the 2021-2030 Long Term Plan.

2.5 Wellington Water Limited

2.5.1. Capital Expenditure Budgets

In August 2020, Euan Stitt, Partnerships and Operations Manager, flagged to Assets and Services Committee two projects that are high risk and will exceed current budget constraints.

1. Wastewater – Papawai capacity upgrade. 2020/21 budget \$1,800,000: revised cost \$2,800,000.
2. Wastewater – Pinot Grove capacity upgrade. 2020/21 budget \$300,000: revised cost \$860,000

Other projects that have been identified by WWL as exceeding budget:

1. Water Supply – Featherston Waiohine pump and commissioning works. Extra cost \$654,000. This overrun is due to an electrical upgrade that is required and was omitted from the original project scope.
2. Wastewater – Lake Ferry driplines. Mitigation works being undertaken. Capex solution to be designed with start date 2021-22 financial year.

WWL will be rephasing their budgets to fit expenditure within the Annual Plan constraints. This will see Pinot Grove delivered ahead of Papawai which is now planned for the last quarter of the financial year.

Emergency works – Fitzherbert Street, Featherston. Major sewer failure under rail tracks. The estimated cost of capex being \$400k.

2.6 Unbudgeted Costs

	Committed		Spent YTD	Funded by
	Opex	Capex		
Waihinga Centre review (Lessons Learned)	\$15,000		\$0	Cashflow
PGF – Innovating Streets – Council contribution	\$18,000		\$0	Infrastructure Reserve
Aerial Mapping		\$25,000	\$0	Cashflow
Recovery Committee – contribution of annual costs	\$20,000		\$0	Cashflow
Citycare (Parks and Reserves) contract increase of 2.5%	\$25,000		\$4,000	Cashflow
Water races customer survey	\$50,000		\$0	Water Race Reserve
Insurance premiums	\$74,000		\$74,000	Cashflow
Policy for encroachment and road stopping	\$15,000		\$0	Cashflow – to be recovered from land sales
Total	\$202,000	\$25,000	\$78,000	

Staffing	Annual Plan 2020-21	Actual 2020-21	
Environmental Health Officer	0.5 FTE	1.0 FTE	2020-21 additional cost is covered by current years resourcing budget
Community Development Officer	0.5 FTE	1.0 FTE	additional 0.5 to be funded from Mayoral Taskforce budget for 2020-21
Health and Safety Officer (includes recovery and civil defence)	0.6 FTE	1.0 FTE	2020-21 additional cost is covered by current years resourcing budget
HR Consultant	Contractor 3months		2020-21 additional cost is covered by current years resourcing budget
Total	1.6 FTE	3.0 FTE	Increase 1.4 FTE

2.7 Other Financial Risks to Council

Solid Waste – The overseas market for paper and cardboard recycling has closed meaning costs of disposal have increased significantly. This is likely to result in increased costs. Current estimates indicate \$250,000 p.a.

2.8 Unplanned use of Reserves

Project	Reserve	Amount
PGF – Innovating Streets – Council contribution	Infrastructure Reserve	\$18,000
Water races customer survey	Water Races Reserve	\$50,000
Total		\$68,000

3. Appendices

Appendix 1 – Financial statements 31 July 2020

Appendix 2 – Financial statements 31 August 2020

Contact Officer: Katrina Neems, Chief Financial Officer

Reviewed by: Harry Wilson, Chief Executive Officer

**Appendix 1 –
Financial statements to
31 July 2020**

South Wairarapa District Council

Statement of Financial Performance

For the Period End 31 July 2020

Last Year Actual		Current Year			Full Year	
		Actual	Budget	Variance	Budget	%
Operating Income						
3,709,899	Rates	3,875,494	3,842,829	32,665	15,371,317	25.2%
20,087	Rates Penalty	21,572	250	21,322	123,000	17.5%
31,136	Interest	24,560	25,000	(440)	300,000	8.2%
1,773	Internal Interest Loans	1,773	(1,740)	3,513	(20,875)	-8.5%
235,175	Fees & Licences	253,724	108,683	145,041	1,304,200	19.5%
233,470	User Levies	174,808	69,205	105,603	830,446	21.0%
6,168	Commissions	6,051	6,279	(228)	75,350	8.0%
188,913	NZ Transport Agency Subsidy	76,217	166,581	(90,364)	1,998,975	3.8%
8,458	Petrol Tax	(36,521)	7,216	(43,737)	86,593	-42.2%
1,097	Grants, Donations & Subsidies	11	1,107	(1,096)	13,283	0.1%
28,688	Rental / Hire	81,638	53,859	27,779	646,308	12.6%
(43,023)	Miscellaneous Income	42,093	10,246	31,847	322,961	13.0%
4,421,844		4,521,421	4,289,515	231,906	21,051,558	21.5%
Operating Expenditure						
188,330	Corporate Services	258,467	267,361	8,894	2,780,703	9.3%
99,973	Professional Services	95,595	41,912	(53,683)	511,544	18.7%
58,690	Governance, Leadership & Advocacy	88,087	55,145	(32,942)	664,170	13.3%
112,347	Public Protection	163,914	167,337	3,423	1,711,482	9.6%
45,911	Resource Management	51,352	63,038	11,686	759,432	6.8%
111,697	Economic, Cultural & Community Development	111	44,231	44,120	1,530,770	0.0%
204,560	Amenities	164,776	273,292	108,516	3,298,518	5.0%
418,424	Land Transport	232,441	461,604	229,163	6,292,557	3.7%
205,759	Water Supply	44,541	295,864	251,323	3,286,344	1.4%
111,668	Solid Waste Management	93,435	131,333	37,898	1,575,996	5.9%
125,585	Sewerage	50,236	195,988	145,752	2,274,943	2.2%
12,212	Stormwater Drainage	2,932	28,887	25,955	323,893	0.9%
4,923	Rate Debtors Written Off	5,344	-	(5,344)	30,000	17.8%
1,700,080		1,251,233	2,025,992	774,759	25,040,352	5.0%
2,721,764	Operating Surplus/(Deficit)	3,270,188	2,263,523	1,006,665	(3,988,794)	-82.0%
Other Income						
-	NZTA CAPEX Subsidy	31,151	61,905	(30,754)	742,856	4.2%
6,887	Grants, Donations & Subsidies	-	-	-	-	0.0%
174,920	Contributions	16,163	112,889	(96,726)	1,354,689	1.2%
-	Assets Vesting in Council	1,739	-	1,739	-	0.0%
-	Gain on Asset Revaluations	-	-	-	39,494	0.0%
181,807		49,053	174,794	(125,741)	2,137,039	2.3%
Other Expenditure						
-		-	-	-	-	0.0%
2,903,571	Total Surplus/(Deficit)	3,319,241	2,438,317	880,924	(1,851,755)	-179.2%
Included in the operating expenditure is:						
387,802	Depreciation	-	433,958	433,958	5,207,532	0.0%
53,025	Interest Expense	55,556	54,408	(1,148)	652,909	8.5%

South Wairarapa District Council

Statement of Financial Position

As at 31 July 2020

	July 2020	June 2019	Movement
Assets			
Current Assets			
Cash and Bank	1,287,260	438,842	848,418
Short Term Deposits	11,848,368	13,373,243	(1,524,874)
Prepayments and Receivables	5,550,291	2,255,363	3,294,928
Inventories	51,957	54,418	(2,461)
	<u>18,737,876</u>	<u>16,121,866</u>	<u>2,616,010</u>
Non-Current Assets			
Intangible Assets	52,854	52,854	-
Investment Properties	8,846,350	8,846,350	-
Investments	492,298	492,298	-
Property Plant and Equipment	452,214,035	452,024,550	189,485
	<u>461,605,537</u>	<u>461,416,052</u>	<u>189,485</u>
Total Assets	<u><u>480,343,413</u></u>	<u><u>477,537,918</u></u>	<u><u>2,805,495</u></u>
Liabilities			
Current Liabilities			
Payables and Accruals	3,667,978	4,245,247	(577,269)
Employee Entitlements	467,870	404,341	63,529
Provisions - Current Portion	-	34,578	(34,578)
	<u>4,135,847</u>	<u>4,684,166</u>	<u>548,318</u>
Non-Current Liabilities			
Public Debt - Non Current Portion	21,900,000	21,900,000	-
Provisions - Non Current Portion	477,117	442,538	34,578
	<u>22,377,117</u>	<u>22,342,538</u>	<u>(34,578)</u>
Equity			
Public Equity	153,544,226	150,224,985	3,319,241
Special Separate and Trust Funds	28,263,747	28,263,747	-
Asset Revaluation Reserve	272,022,237	272,022,237	-
Other Reserves	245	245	-
	<u>453,830,455</u>	<u>450,511,214</u>	<u>3,319,241</u>
Total Liabilities & Equity	<u><u>480,343,419</u></u>	<u><u>477,537,918</u></u>	<u><u>(2,805,501)</u></u>
	(6)	-	(6)

**Appendix 2 –
Financial statements to
31 August 2020**



**SOUTH WAIRARAPA
DISTRICT COUNCIL**

Kia Reretahi Tātau

Monthly Financial Statements

For the period ended

31 August 2020

Summary Financial Report

Statement of Financial Performance

Statement of Financial Position

Statement of Cashflows

Schedule of Investments

Schedule of Capital Expenditure

Financial Report

1. Summary and Highlights

Purpose

The purpose of this report is to provide Council with a commentary on:

Year to date budget vs actual financial results.

Commentary on material variances.

Full year risks (if any) for each significant activity.

Highlights

Operating Surplus year to date is overbudget (\$707k). Year to date operating surplus of \$1,867k against a budgeted year to date surplus of \$1,160k.

Total Surplus year to date is overbudget (\$517k). Total surplus YTD is \$2,027,474k vs. budget surplus of \$1,510k.

Operating income is overbudget (\$157k). \$125k of this relates to the funds received for the Mayor's Taskforce for Jobs.

Operating Expenditure is underbudget (\$550k).

Working Capital which expresses the ability of council to meet its short-term obligations is strong with a ratio of 3.4 times, and a total value of \$12,809k.

Interest cost 2.87% of rates revenue, SWDC maximum 12%.

Current Net debt \$21,900k, at 2.76% average borrowing rate.

Budgets have been phased based on last year's actual spend. Some variances are due to actual spending patterns being different between years.

2. Statement of Financial Performance

Operating Income

Rates

1% Rates revenue overbudget \$32k. Revenue from rates penalties is overbudget (\$7k). Overall income from rates and penalties is slightly overbudget.

Interest Revenue

27% Interest received on term deposits underbudget (\$14k) variance YTD. This reflects lower short-term deposit rates.

User Levies

9% Overbudget by \$13k. The variance reflects increased activity in several areas:

- LIMs requests,
- Library fees,
- Water meter fees.

Fees & Licences

79% Overbudget by \$172k. Activity has been strong in the following areas:

- Alcohol licences (\$10k overbudget)
- Food safety verifications (\$3k overbudget)
- Building consents (\$53k overbudget)
- Dog licences (\$100k overbudget, but phasing has been incorrectly spread over the full year, this will be corrected in the next report)
- Resource consents (\$6k overbudget)

NZTA Operating Subsidy

56% Underbudget by \$186k due to phasing of the budget not reflecting the peak season for work being October to April.

Rental / Hire

27% Overbudget by \$29k.

Miscellaneous Income

143% Overbudget \$101k. This figure is distorted by the receipt of \$125k of funding for the Mayor's Taskforce for Jobs, which will be distributed throughout the year. Removing this unbudgeted income results in Miscellaneous Income being underbudget by \$24k.

Operating Expenditure

2%

Corporate Services

Underbudget by \$12k.

In-house Professional Services

Overbudget by \$156k.

173%

Salaries & wages overbudget by \$123k. There are several factors contributing to this.

- Continuation of Water Races Coordinator work, \$7k which was unbudgeted.
- The balance is due to salaries incorrectly allocated across amenities, land transport and solid waste. This causes a corresponding underspend in those activities. This will be corrected in October.

Consultants has \$44k of Wellington Water management fee incorrectly allocated, this will also be adjusted in October.

Governance, Leadership & Advocacy

25%

Overbudget by \$28k, mainly due to

- Training & development for elected members being \$10k overbudget year-to-date, and
- The whole year's allocation of election expenses having been allocated in one transaction but budget being spread through the year. Budget will be rephased in October to correct this timing issue.

Public Protection

1%

Underbudget by \$2k. Despite the busy period of activity in dog registrations, and food & alcohol licences, costs are being kept on budget.

Large leave liabilities will be reduced once the busy period has finished.

Resource Management

19%

Underbudget by \$24k. This is mainly due to a budgeted Planner role being vacant along with lower than budgeted general operating expenses.

Economic Cultural & Community Development

47%

Underbudget by \$30k.

Of this \$11k is due to shared services staff not having been invoiced to SWDC, with the remainder being lower than budgeted general expenses.

Amenities

8%

Underbudget by \$43k. Some notable variances are:

- *Swimming Pools*
Underbudget, by \$41k, due to lower contractor costs than budgeted.
- *Community Buildings - includes Wahinga Centre, and Greytown Town Hall*
Underbudget by \$31k, with slightly higher than budgeted costs (\$2k) for the Wahinga Centre being offset by lower costs in other buildings.

- *Cemeteries*
On budget.
- *Rental Properties and Housing*
Overbudget by \$53k. Rates budget has been phased across the year, but the cost falls at the beginning of the year, causing a \$56k higher than budgeted cost. This will be rephased in October to remove this timing discrepancy.
- *Parks, Reserves, and Campgrounds*
Underbudget by \$11k. Rates budget has been phased across the year, but the cost falls at the beginning of the year, causing a \$26k higher than budgeted cost. This will be rephased in October to remove this timing discrepancy.

This has been offset by reduced personnel and works costs so far this year, being \$8k and \$15k underbudget, respectively.
- *Libraries*
Underbudget by \$4k, due to low repairs & maintenance costs.
- *Pain Farm*
Overbudget by \$63k, due to higher than budgeted cost (\$21k) for repairs and maintenance, and rates budget being phased across the year, but the cost falls at the beginning of the year, causing a \$42k higher than budgeted cost. This will be rephased in October to remove this timing discrepancy.
- *Toilets*
Underbudget \$5k due to lower than budgeted works costs.

55% **Land Transport**
Underbudget by \$523k, this reflects the peak season for work being October to April, costs should catch up with budget as work levels increase.

8% **Solid Waste Management**
Underbudget by \$21k due to reduced operating and finance costs compared to budget.

9% **Water Supply**
Underbudget by \$33k to date, with forecast from Wellington Water is to be 1% overbudget by year-end due to unbudgeted utility costs.

23% **Wastewater**
Underbudget by \$70k to date, with costs due to be 1% overbudget by year-end due to increased monitoring costs following the Lake Ferry incident.

106% **Stormwater Drainage**
Over budget by \$26k due to higher than budgeted network costs. Wellington Water forecast costs to be on budget by year-end.

Capital Expenditure Income

NZ Transport Agency

35%

Underbudget by \$43k inline with lower than budgeted capital spending on subsidised roads. This will catch-up as the peak season begins in the Spring.

Contributions

Underbudget by \$148k due to lower than budgeted income from developments.

3. Statement of Financial Position

Working Capital

Working capital (current assets less current liabilities) is \$12,809k (30 June 2020 \$11,438k).

Prepayments and Receivables

Prepayments and receivables total \$2,407k. Key components are Rates Receivable \$769k, General Debtors \$540k, NZTA & Fuel Tax Receivable \$376k, Prepayments \$280k, and Water Debtors \$255k.

Investments

Term deposits have been spread more evenly across providers, so that we no longer have any institution exceeding the maximum amount to be invested of 30%.

Payables and Accruals

Payables and accruals total \$4,811k. Key items are accrued expenses not yet invoiced \$1,165k, GWRC rates payable & in advance \$1,114k, sundry creditors \$686k, SWDC rates in advance \$533k, and contract retentions \$113k.

Gross Public Debt

Total public debt stands at \$21,900k. Our average interest rate on borrowings is 2.76%.

South Wairarapa District Council

Statement of Financial Performance

FOR THE PERIOD ENDED 31 AUGUST 2020

Last Year <i>Actual</i>		Current Year			Full Year	
		<i>Actual</i>	<i>Budget</i>	<i>Variance</i>	<i>Budget</i>	<i>%</i>
	<u>Operating Income</u>					
3,816,081	Rates	3,875,175	3,842,829	32,346	- 15,371,317	25.2%
41,855	Rates Penalty	37,091	30,500	6,591	- 123,000	30.2%
63,798	Interest	36,341	50,000	(13,659)	- 300,000	12.1%
3,547	Internal Interest Loans	3,547	(3,480)	7,027	- 20,875	-17.0%
226,736	Fees & Licences	390,140	217,366	172,774	- 1,304,200	29.9%
272,096	User Levies	151,546	138,410	13,136	- 830,446	18.2%
12,460	Commissions	13,035	12,558	477	- 75,350	17.3%
45,103	NZ Transport Agency Subsidy	147,107	333,162	(186,055)	- 1,998,975	7.4%
16,915	Petrol Tax	11,789	14,432	(2,643)	- 86,593	13.6%
1,151	Grants, Donations & Subsidies	29	2,214	(2,185)	- 13,283	0.2%
142,056	Rental / Hire	136,557	107,718	28,839	- 646,308	21.1%
1,995	Miscellaneous Income	171,217	70,492	100,725	- 322,961	53.0%
4,643,794		4,973,573	4,816,201	157,372	21,051,558	23.6%
	<u>Operating Expenditure</u>					
	Corporate Services	485,720	487,972	2,252	2,780,703	17.5%
	Professional Services	247,106	90,456	156,650	511,544	48.3%
199,995	Governance, Leadership & Advocacy	138,666	110,990	27,676	664,170	20.9%
278,060	Public Protection	304,184	306,602	2,418	1,711,482	17.8%
144,236	Resource Management	101,602	126,076	24,474	759,432	13.4%
190,439	Economic, Cultural & Community Development	33,529	88,462	54,933	1,530,770	2.2%
673,050	Amenities	502,195	546,344	44,149	3,298,518	15.2%
896,497	Land Transport	434,679	923,383	488,704	6,292,557	6.9%
482,983	Water Supply	332,109	563,228	231,119	3,286,344	10.1%
234,688	Solid Waste Management	242,017	262,666	20,649	1,575,996	15.4%
417,730	Sewerage	228,717	383,587	154,870	2,274,943	10.1%
29,902	Stormwater Drainage	50,267	55,468	5,201	323,893	15.5%
5,499	Rate Debtors Written Off	5,344	7,500	2,156	30,000	17.8%
	Bad Debts					
	Loss on Sale of Assets					
3,553,080		3,106,137	3,952,734	846,597	25,040,352	12.4%
1,090,714	<i>Operating Surplus/(Deficit)</i>	1,867,437	863,467	1,003,970	(3,988,794)	-46.8%
	<u>Other Income</u>					
131,047	NZTA CAPEX Subsidy	80,660	123,810	(43,150)	742,856	10.9%
36,619	Grants, Donations & Subsidies	-	-	-	-	0.0%
330,373	Contributions	77,551	225,778	(148,227)	1,354,689	5.7%
	Assets Vesting in Council	1,739	-	1,739	-	0.0%
	Gain on Asset Revaluations	-	-	-	39,494	0.0%
498,039		159,950	349,588	(189,638)	2,137,039	7.5%
1,588,753	Total Surplus/(Deficit)	2,027,386	1,213,055	814,331	(1,851,755)	-109.5%
	Included in the operating expenditure is:					
	Depreciation	-	867,916	867,916	5,207,532	0.0%
	Interest Expnese	111,351	108,816	2,535	652,909	17.1%

South Wairarapa District Council

Statement of Financial Position

FOR THE PERIOD ENDED 31 AUGUST 2020

	August 2020	June 2020	Movement
<u>Assets</u>			
<i>Current Assets</i>			
Cash and Bank	1,012,923	438,842	574,081
Short Term Deposits	14,653,376	13,373,243	1,280,134
Prepayments and Receivables	2,407,405	2,255,363	152,042
Inventories	50,655	54,418	- 3,763
Properties Intended for Sale		-	-
	<u>18,124,360</u>	<u>16,121,866</u>	<u>2,002,494</u>
<i>Non-Current Assets</i>			
Intangible Assets	52,854	52,854	-
Investment Properties	8,846,350	8,846,350	-
Investments	492,298	492,298	-
Property Plant and Equipment	452,715,034	452,024,550	690,484
	<u>462,106,536</u>	<u>461,416,052</u>	<u>690,484</u>
Total Assets	<u>480,230,896</u>	<u>477,537,918</u>	<u>2,692,978</u>
<u>Liabilities</u>			
<i>Current Liabilities</i>			
Payables and Accruals	4,810,995	4,300,949	510,047
Employee Entitlements	504,184	348,639	155,545
Provisions - Current Portion	-	34,578	(34,578)
	<u>5,315,179</u>	<u>4,684,166</u>	<u>- 631,014</u>
<i>Non-Current Liabilities</i>			
Public Debt - Non Current Portion	21,900,000	21,900,000	-
Provisions - Non Current Portion	477,117	442,538	34,578
	<u>22,377,117</u>	<u>22,342,538</u>	<u>- 34,578</u>
<i>Equity</i>			
Public Equity	152,252,371	150,224,985	2,027,386
Special Separate and Trust Funds	28,263,747	28,263,747	-
Asset Revaluation Reserve	272,022,237	272,022,237	-
Other Reserves	245	245	-
	<u>452,538,600</u>	<u>450,511,214</u>	<u>2,027,386</u>
Total Liabilities & Equity	<u>480,230,896</u>	<u>477,537,918</u>	<u>- 2,692,978</u>

South Wairarapa District Council

Statement of cashflows

AS AT 31 AUGUST 2020

	31 AUGUST 2020	31 AUGUST 2019	30 JUNE 2020
<u>OPERATING ACTIVITIES</u>			
Cash was provided from:			
Rates	5,657,951	5,330,237	14,602,540
Grants & Subsidies	307,282	342,856	2,828,591
Petrol Tax	-	-	91,337
Other Income	834,104	846,165	4,428,220
Interest on Investments	73,928	34,998	361,428
Total Operating Cash Inflow	6,873,265	6,554,257	22,312,116
Cash was applied to:			
Payments to Suppliers & Employees	4,282,397	2,977,879	15,959,419
Interest Paid	46,168	46,047	624,765
Total Operating Cash Outflow	4,328,566	3,023,926	16,584,184
Net Cashflow from Operating Activities	2,544,699	3,530,331	5,727,932
<u>INVESTING ACTIVITIES</u>			
Cash was provided from:			
Sale of Property, Plant & Equipment	-	-	1,441,544
Term Investments, Shares & Advances	2,669,000	(4,270,000)	21,200,000
Total Investing Cash Inflow	2,669,000	(4,270,000)	22,641,544
Cash was applied to:			
Purchase of Property, Plant & Equipment	690,484	1,131,203	8,693,872
Term Investments, Shares & Advances	2,669,000	459,764	23,937,844
Total Investing Cash Outflow	3,359,484	1,590,967	32,631,716
Net Cashflow from Investing Activities	(690,482)	(5,860,965)	(9,990,170)
<u>FINANCING ACTIVITIES</u>			
Cash was provided from:			
Public Debt	-	2,000,000	7,000,000
Total Financing Cash Inflow	-	2,000,000	7,000,000
Cash was applied to:			
Repayment of Public Debt	-	2,000,000	5,000,000
Total Financing Cash Outflow	-	2,000,000	5,000,000
Net Cash Flow from Financing Activities	-	-	2,000,000
NET INCREASE / (DECREASE) IN CASH	1,854,217	(2,330,634)	(2,262,237)
31 AUGUST 2019	13,812,085	4,465,554	4,465,555
31 AUGUST 2020	\$ 15,666,302	\$ 2,134,921	\$ 2,203,316
<u>REPRESENTED BY:</u>			
Cash and Cash equivalents	15,666,301	2,134,919	2,203,316
	-	-	-
\$ 15,666,301	\$ 2,134,919	\$ 2,203,316	

SUMMARY OF INVESTMENTS AS AT 31 AUGUST 2020

ORGANISATION	INTEREST RATE	INVESTED DATE	MATURITY DATE	Term	TOTAL INVESTED	INVESTED FUNDS %	AUTHORISED FUNDS %
SHORT TERM FUNDS							
ASB Bank							
ASB Call account					\$226,235.74		
Term Deposit	2.63%	31-Oct-19	19-Oct-20	354 days	\$225,000.00		
Term Deposit	1.76%	29-Jun-20	26-Dec-20	180 days	\$500,000.00		
Term Deposit	1.76%	29-Jun-20	19-Mar-21	263 Days	\$1,000,000.00		
Term Deposit	2.70%	22-Nov-19	21-Nov-20	365 days	\$1,500,000.00		
Term Deposit	1.88%	29-May-20	18-May-21	354 days	\$525,000.00		
					\$3,976,235.74	27%	30%
ANZ Bank							
ANZ Call Account					\$90.71		
Term Deposit	0.60%	31-Aug-20	30-Nov-20	91 days	\$1,000,000.00		
Term Deposit	1.30%	31-Aug-20	1-Mar-20	182 days	\$1,000,000.00		
Term Deposit	1.40%	31-Aug-20	31-Aug-21	365 days	\$1,000,000.00		
					\$3,000,090.71	20%	30%
BNZ Bank							
BNZ Call Account					\$818,265.32		
Term Deposit	2.81%	22-Nov-19	23-Nov-20	367 days	\$1,000,000.00		
Term Deposit	2.76%	21-Feb-20	22-Feb-21	367 days	\$1,000,000.00		
Term Deposit	2.21%	29-May-20	31-May-21	367 days	\$1,000,000.00		
					\$3,818,265.32	26%	30%
Wairarapa Building Society							
WBS Call Account					\$1.32		
Term Deposit	3.05%	22-Nov-19	21-Nov-20	365 days	\$197,570.44		
Term Deposit	3.05%	25-Nov-19	24-Nov-20	365 days	\$191,452.32		
Term Deposit	3.05%	21-Dec-19	20-Dec-20	366 days	\$155,325.00		
					\$544,349.08	4%	10%
Westpac Bank							
Westpac Call Account					\$14.61		
Term Deposit	1.75%	24-Jun-20	24-Jun-21	365 days	\$1,314,421.02		
Term Deposit	1.60%	25-Aug-20	25-Aug-21	365 days	\$1,000,000.00		
Term Deposit	0.63%	25-Aug-20	25-Sep-20	31 days	\$1,000,000.00		
					\$3,314,435.63	23%	30%
TOTAL					\$14,653,376.48	100%	100%
INVESTMENTS							
LGFA Borrower Bonds	3.01%	20-Jun-16	15-Apr-23		\$28,800.00		
LGFA Borrower Bonds	2.81%	20-Jun-16	15-May-21		\$91,200.00		
LGFA Borrower Bonds	1.29%	15-Apr-20	15-Apr-25		\$80,000.00		
LGFA Borrower Bonds	2.03%	15-Mar-19	15-Nov-21		\$22,400.00		
LGFA Borrower Bonds	2.07%	15-Mar-19	14-Apr-22		\$32,000.00		
LGFA Borrower Bonds	2.98%	21-Aug-17	15-May-22		\$40,000.00		
LGFA Borrower Bonds	3.08%	19-Feb-18	15-Apr-23		\$24,000.00		
LGFA Borrower Bonds	1.09%	15-Apr-20	15-Apr-24		\$32,000.00		
					\$350,400.00		
FORESTRY							
Plantation - Hurupi Stock					\$9,305.00		
					\$9,305.00		
SHARES							
Farmlands					\$1,159.00		
NZ Local Government Insurance Company					\$81,434.30		
Wellington Water Limited					\$50,000.00		
					\$132,593.30		
TOTAL INVESTMENTS					\$15,145,674.78		

FINANCE, AUDIT AND RISK COMMITTEE

21 OCTOBER 2020

AGENDA ITEM B2

INSURANCE AND RISK MANAGEMENT

Purpose of Report

To present the insurance and risk management.

Recommendations

Officers recommend that the Committee:

1. *Receive the Risk and Insurance presentation.*

1. Background

Darren Williamson from Marsh will be presenting a discussion on Insurance Risk Management, including understanding risk modelling, and cyber risk.

2. Discussion

The presentation will be tabled at the meeting.

Contact Officer: Katrina Neems, Chief Financial Officer

FINANCE, AUDIT AND RISK COMMITTEE

21 OCTOBER 2020

AGENDA ITEM B3

INTERIM AUDIT REPORT

Purpose of Report

To present the interim audit report.

Recommendations

Officers recommend that the Committee:

1. *Receive the Interim Audit Report.*

1. Background

Officers present the interim audit report from AuditNZ for the year ended 30 June 2020.

2. Discussion

AuditNZ has issued the interim audit report for the 2020 annual audit and it is attached in Appendix 1.

Contact Officer: Katrina Neems, Chief Financial Officer

Appendix 1 – Interim Audit Report 30 June 2020

**Report to the District Council
on the interim audit of**

South Wairarapa District Council

For the year ended 30 June 2020

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Key messages

We have completed our interim audit of South Wairarapa District Council (the District Council) for the year ended 30 June 2020. This report sets out our findings from the interim audit.

The purpose of our interim audit was to:

- update our understanding and assessment of your control environment;
- review key systems of internal control relevant to preparing the financial statements and the service performance information;
- update our assessment of the key business risks and our areas of audit focus and commence our associated audit work; and
- assess the District Council's progress in addressing the recommendations we made in previous audits.

Assessment of your control environment and internal controls

We have performed an assessment of the District Council's control environment and relevant internal controls over key financial and performance information systems. We found that relevant internal controls for key financial and performance functions are in place and were operating effectively throughout the year, apart from some breakdowns in key payroll and expenditure controls.

Based on the audit work completed, we found the District Council's control environment remains effective for the purposes of our audit. We have raised some areas for improvement, but we were pleased to find a number of prior year recommendations have now been addressed, with progress made against some further recommendations.

Issues identified during the audit

We outlined the main audit risks and issues and our associated audit response in our Audit Plan dated 5 May 2020. We have commenced our audit work on these matters, and have provided an update in this report where we are able to. We have made new recommendations for the enhancement of internal controls, these are discussed in detail under Part 2 of this report.

COVID-19

The District Council will need to complete an assessment of the impact of the COVID-19 pandemic on its operations and any effect this has on the financial and performance information included in the Annual Report, including any additional disclosures which may need to be included. Taking into consideration the potential resultant impact as well as the overall economic impact and outlook, it is considered prudent that we draw attention to these disclosures in the current year and plan to include an **emphasis of matter paragraph** in our final report. This is further discussed in section 4 below.

Thank you

We would like to thank management and staff for their assistance during the interim audit. It has been a challenging period for the District Council and we appreciate the support provided to us during this time.

Should you require clarification on any of the matters raised in this report please contact me on 021 222 4825.

John Whittal
Appointed Auditor
[Date]

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 use the following priority ratings for our recommendations.

Priority	Explanation
Urgent	Needs to be addressed <i>urgently</i> 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.
Necessary	Address at the earliest reasonable opportunity, <i>generally within six months</i> 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.
Beneficial	Address, <i>generally within six to 12 months</i> 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.

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Compliance with legislation – process and compliance We recommend the District Council continue its review of legislative compliance and ensure the 2021/22 Annual Plan has the appropriate disclosures included.	2.3	Necessary
Payroll controls not operating effectively The reviewers of the payroll reports and timesheets are required to date and sign or otherwise document their review, as evidence that that this was performed.	2.4	Necessary
Expenditure control not operating effectively The reviewers of expenditure batches are required to date and sign or otherwise document their review, as evidence that that this was performed.	2.5	Necessary

Recommendation	Reference	Priority
<p>Code of Conduct review</p> <p>The policy is updated at least every three years. In addition, that the staff code of conduct provides more guidance to its employees on expectations and responsibilities.</p>	2.6	Beneficial

1.2 Status of recommendations

Set out below is a summary of the previous recommendations and those above. Appendix 1 sets out the status of previous year's recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	2	2	4
New issues identified	-	3	1	4
Matters that will be followed up during our final audit visit	1	1	3	5
Total	1	6	6	13

2 Assessment of internal control



The District Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

2.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of the District Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the District Council and management to establish and maintain effective management procedures and internal controls.

The elements of the control environment provide an appropriate foundation for other components of internal control.

2.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the District Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

During the interim visits, we considered the following systems:

- Revenue and accounts receivable
- Expenditure and accounts payable

- Payroll
- Cash and cash equivalents and investments
- Property, Plant and Equipment
- General ledger reconciliations and journals
- Legislative compliance
- Conflicts of interest and related parties

We also considered the systems and controls for the material performance measures that will be included in the Annual Report.

We have new recommendations to bring to your attention in regards to compliance monitoring, expenditure and payroll which are detailed below. Aside from the expenditure and payroll controls, we found that relevant internal controls for key financial functions are design effective and in place up to the time of our interim audit visit.

2.3 Legislative compliance monitoring and reporting

Under the Council's legislative compliance system, legal compliance monitoring is collated every six months through reporting by relevant managers and reported to the Audit and Risk Committee.

We were advised that due to staff changes, the legal compliance reporting has not been completed. This means that during the financial year the formal legal compliance monitoring was not completed.

It is important that the Council is provided with positive assurance of compliance with significant legislation regularly.

We recommend that the legislative compliance monitoring and reporting is carried out as soon as possible.

In addition to the above management identified non-compliance with part 2, section 9 of the Local Government (Financial Reporting and Prudence) Regulations 2014 which requires the District Council to include prudence benchmark reporting in its Annual Plan. The District Council's Annual Plan for 2019/20 does not include a disclosure statement explaining the District Council's planned financial performance and whether it has met these. We understand from our discussion with management that due to the timing of identifying this omission, the 2020/21 Annual Plan does not include required statement either and that this will be included in future plans.

Management comment

2.4 Payroll controls not operating effectively

We obtained an understanding of the payroll systems and controls and identified the following controls that have not been operating effectively throughout the year:

- We found that there was no evidence of the payroll “audit report” for July 2019 having been reviewed by the Payroll Accountant. We are therefore unable to determine if the internal control was operating as intended.
- We tested a sample of manual timesheets and identified one instance where the timesheet had no evidence of having been reviewed. We are therefore unable to determine if the internal control was operating as intended.
- The “paysheet report” is required to be prepared and reviewed independently, the preparer did not sign the reports tested and we are therefore unable to determine if the internal control was operating as intended.
- We also identified that the review of the payroll reports “audit report” and “paysheet report” is not systematically dated.

We recommend that the reviewers of the payroll reports and timesheets are required to date and sign or otherwise document their review, as evidence that this was performed.

Management comment

2.5 Expenditure payment batch not evidenced as reviewed

We obtained an understanding of the expenditure systems and controls and identified the following control that had not been operating effectively throughout the year:

- We found that there was no evidence of the review before payment of an expenditure batch in March 2020. We are therefore unable to determine if the internal control was operating as intended.

This is a key control to ensure that expenditure is valid and accurate, the control requires that inputted invoices are independently checked against supporting documentation before payment.

We recommend that the reviewers of expenditure batches are required to date and sign or otherwise document their review, as evidence that that this was performed.

Management comment

2.6 Code of conduct for members and staff

From our review of the Code of Conduct for Councillors and Community Board members, this was last updated in October 2016. This was due for review in October 2019. It is important to refresh policies and ensure these are in line with latest good practice.

In addition to this, the Code of Conduct for staff is minimal and only refers to principles that staff should adhere to. It is important to set clear expectations for staff to adhere and refer to, and clearly state responsibilities in regards to their work at the District Council.

We note management's intention to review the Councillor's code within the current triennium (by Spring 2022) and to refresh a number of policies, which will factor into the Code of Conduct update for staff. However implementation is likely only expected end of this calendar year, or beginning of next. This needed update is reflected through our previous recommendations in Appendix 1 to update the procurement and sensitive expenditure policies for best practice.

We **recommend** the policy is updated at least every three years. In addition, we **recommend** that the staff code of conduct provides more guidance to its employees.

3 Matters raised in the Audit Plan



In our Audit Plan of 5 May 2020, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Our audit response
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. Management is 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 our work performed, we have not identified any instances, or are aware of, any occurrence of management override of controls.</p> <p>During our final audit visit we will be reviewing accounting estimates for indications of bias; testing the appropriateness of selected journal entries; and evaluating any unusual or one off transactions, including those with related parties.</p>
Procurement and contract management	
<p>The District Council has a new significant contract in place to maintain and service its road corridor throughout the District.</p> <p>This is a significant agreement for the District Council and includes a large portion of the Council’s expenditure for asset renewals and replacements.</p> <p>Due to the size and coverage, sound policies and practices in the areas of procurement and contract management are essential.</p>	<p>We have reviewed the roading contract managed by the District Council and completed the following:</p> <ul style="list-style-type: none"> • Performed testing against the District Council’s policies and procedures, and good public practices, for the management and procurement of goods and services. • Confirmed that contract management procedures are being followed. • That appropriate oversight of the contract is maintained by the District Council. <p>We note that the procurement for the contract was completed by Carterton District Council, as it is a joint contract. We are reporting our draft findings to Carterton District Council, and are waiting their responses so that we can finalise the report.</p>

Audit risk/issue	Our audit response
Wellington Water service provider	
<p>On 1 October 2019, the District Council became a joint owner of Wellington Water Limited. The District Council is the sixth council to join, along with five other councils in the Wellington Region.</p> <p>The District Council has retained ownership of all its infrastructure assets and contracts Wellington Water to provide infrastructure management services, relating to the assets and services of the water networks.</p> <p>As part of this arrangement, Wellington Water will be providing the District Council with information required for reporting against performance measures in the 2019/20 Annual Report, including DIA compulsory measures.</p>	<p>We have gained an understanding of the Wellington Water Service Level Agreement and their services being provided to the District Council.</p> <p>We have requested audit clearance for those measures managed by Wellington Water from the auditor of Wellington Water Limited that the results are accurate, valid and complete.</p>
Wastewater project	
<p>The District Council has been planning to upgrade the wastewater treatment system for Featherston to stop pollutants entering waterways.</p> <p>The District Council has continued to work with the regional council to obtain the resource consent for the Featherston project.</p> <p>However we understand the decision has now been made to reconsider options for disposing of Featherston’s wastewater, with the potential to withdraw the current resource consent application.</p>	<p>We are aware of the withdrawal of the resource consent application for the Featherston wastewater project.</p> <p>Please keep us updated of any major decisions made in relation to the project and its planning. Otherwise, we intend to move our work to next year’s audit to review the adequacy of the:</p> <ul style="list-style-type: none"> • project governance and management structures; • procurement and project management processes applied; and • risk management practices. <p>At final, we will review the Council’s impairment assessments at balance date and review of costs they believe are reusable for the resource consenting process.</p>

4 Other matters

4.1 Impacts of COVID-19 on the District Council

4.1.1 COVID-19 guidance

The District Council will need to complete an assessment of the impact of the COVID-19 pandemic on its operations and any effect this has on the financial and performance information to be included in the Annual Report, including any additional disclosures which may need to be included. The District Council's consideration of COVID-19 impacts should include the following:

- General disclosure about COVID-19 and any resultant impact on the District Council during the alert levels.
- Disclosure about how the District Council's financial and non-financial performance has changed due to COVID-19.
- Disclosure about the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (as required by Public Sector PBE and for-profit accounting standards).
- Disclosure about any non-adjusting subsequent event for matters that occurred after 30 June 2020.

The District Council may find the following COVID-19 guidance to be useful:

- The Financial Markets Authority (FMA) have published a [document](#) outlining what they have seen in their recent reviews of financial reporting in FMA reporting entities, and setting out its expectations and areas that entities should consider when preparing financial statements, particularly in light of the COVID-19 situation. The document would be equally useful for the District Council when preparing its financial statements.
- Audit New Zealand Bulletins to provide high-level guidance on the [implications of COVID-19 on public sector reporting](#), including financial statements and performance information.

4.1.2 Non-standard audit report

The OAG and Audit New Zealand expect all audit reports to include an emphasis of matter paragraph for the current year highlighting the relevant COVID-19 disclosures made by the District Council in the financial statements and performance report. This is because COVID-19 is of such importance that the disclosures are fundamental to readers' understanding of your financial statements. Taking into consideration the potential

resultant impact as well as the overall economic impact and outlook, it is considered prudent that we draw attention to these disclosures.

4.1.3 Performance information

The service performance report should provide sufficient performance information about the District Council's actual activities during the reporting period for its performance to be assessed. This includes information about both:

- activities planned for the period, with performance indicators set out in the information supporting the estimates and strategic intentions agreed prior to the start of the year; and
- significant activities undertaken that were not planned for (such as new or significantly enhanced services in response to the COVID-19).

The District Council should also explain in the service performance report any significant variances between their actual performance and their expected performance.

5 Useful publications



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

Description	Where to find it
COVID-19 Impact on Public Sector Reporting	
<p>The state of emergency in response to the COVID-19 coronavirus has significantly impacted most public sector entities. The consequences for the completion of annual reports and the annual financial statements are one part of this impact.</p> <p>We are developing a series of Bulletins in response:</p> <ul style="list-style-type: none"> • revaluations of Property, Plant and Equipment and investment property; • service performance reporting; and • financial reporting. 	<p>On our website under good practice.</p> <p>Link: COVID-19 bulletins</p>
Model financial statements	
<p>Our model financial statements reflect best practice we have seen. They are a resource to assist in improving 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>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>This includes new guidance on the reduction in deferred tax on buildings that was reintroduced as part of the COVID-19 response package.</p>	<p>On our website under good practice.</p> <p>Link: Tax Matters</p> <p>Link: Reduction in deferred tax on buildings</p>

Description	Where to find it
Client Substantiation File	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On our website under good practice.</p> <p>Link: Client Substantiation File</p>
Severance payments	
<p>Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny. The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payments to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.</p>	<p>On the OAG's website under 2019 publications.</p> <p>Link: Severance payments</p>
Good practice	
<p>The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. 	<p>On the OAG's website under good practice.</p> <p>Link: Good practice</p>

Description	Where to find it
Procurement	
<p>The OAG are continuing their multi-year work programme on procurement.</p> <p>They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.</p> <p>Whilst this is focused on local government, many of the questions are relevant to all types of public sector entities.</p>	<p>On the OAG's website under publications.</p> <p>Link: Procurement article</p>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	Priority	Status
<p>Statement of service performance – Survey results</p> <p>We recommend that the District Council investigates any significant underperformance against targets set for performance measures involving surveys, and where appropriate reports the reasons for underperformance in the Annual Report and actions intended to address any deficiencies.</p>	Urgent	<p>Matter outstanding.</p> <p>From our discussions with management, the District Council is not undertaking the Customer Survey this year due to a number of factors. Although not required to report on the measure using survey results every year, the District Council is still required to report how it assesses its performance for the year.</p> <p>The District Council should consider how it tells its performance against this measure through other means if not performing the survey.</p> <p>We additionally note a customer survey is intended to be held before the end of the calendar year to help inform the long term plan work ahead.</p>
<p>Resource Consent Processing Days</p> <p>The District Council should undertake a review of all resource consents processed near the statutory deadline (for the type of consent) to ensure the system has counted these correctly.</p> <p>We recommend that the District Council explores whether the current resource consent system has the functionality to record pauses of processing of resource consents where statutory criteria is met, and if so to ensure this functionality is utilised.</p>	Necessary	<p>In progress.</p> <p>Management have confirmed the system has the relevant functionality to record pauses, however this was implemented after our final report was issued in October 2019.</p> <p>At final, we will confirm whether the functionality was appropriately incorporated through our testing.</p>
<p>Conflicts of Interest Register for elected members</p> <p>The District Council should ensure declarations by elected members are completed and signed annually.</p>	Necessary	<p>Matter outstanding.</p> <p>No updated declaration had been completed at the time of our audit in July 2020. We understand declarations will be updated as part of post-election processes.</p>
<p>Review of Batch Invoices</p> <p>All expenditure should be confirmed to appropriate documentation prior to payment, and that this review is evidenced.</p>	Necessary	<p>Matter outstanding.</p> <p>From our review of a batch payment report, we identified the lack of evidence of review for a March 2020 payment. Therefore we confirm the issue is still outstanding.</p>

Recommendation	Priority	Status
<p>Excessive annual leave balances</p> <p>The District Council should regularly review employee leave balances and ensure employees with excessive balances have leave plans put in place.</p>	Beneficial	<p>To be followed up at final.</p> <p>We will review leave balances as part of our final audit.</p>
<p>Creditors Masterfile</p> <p>The District Council should independently review all changes to the Creditors Masterfile, including bank account changes and new creditors.</p> <p>The District Council should ensure that a report including all changes is run when Creditor Masterfile review is going to occur to ensure no changes are missed.</p>	Beneficial	<p>Matter outstanding.</p> <p>We have confirmed the MagiQ system still does not have the functionality to run a complete Masterfile change report.</p> <p>We note management have alternative procedures to mitigate this risk such as checking all changes that have been raised, and spot checking a sample of the bank accounts before the payment run.</p>
<p>Low delegation levels</p> <p>The District Council should review current delegation limits to ensure these are reflective of the expenditure being incurred by Council officers.</p>	Beneficial	<p>In progress.</p> <p>Management reviewed the financial delegations in December 2019, and were effective from February 2020. From our review, these have increased the delegation limits for contracted service payments.</p> <p>We note management are further refining the delegations given changes in organisational structure. We further recommend making it clear that the operating expenditure and capital expenditure are considered separately against the financial delegations policy, even if within the same invoice/claim for payment.</p>
<p>Sensitive Expenditure Policy</p> <p>The District Council should update the policy to ensure it covers all best practice guidelines.</p>	Beneficial	<p>To be followed up at final.</p> <p>We understand the District Council intends to update the Sensitive Expenditure Policy in December 2020.</p> <p>We will confirm during the final audit whether this is still the intention.</p>
<p>Procurement and Contract Management Policy</p> <p>The District Council should update the Procurement Policy to ensure it covers all of its procurement and contract management activities.</p>	Beneficial	<p>To be followed up at final.</p> <p>We understand the District Council intends to update its Procurement and Contract Management Policy in December 2020.</p> <p>We will confirm during the final audit whether this is still the intention.</p>

Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carry 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. 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 District Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the District Council.</p>
Auditing standards	<p>We carry 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 are immaterial to your financial statements. The District Council and management are responsible for implementing and maintaining 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>To date, other than the audit, we have no relationship with, or interests in, the District Council.</p>
Fees	<p>The audit fee for the year is \$90,363, as detailed in our Audit Proposal Letter.</p> <p>To date, no other fees have been charged in this period.</p>
Other relationships	<p>To date, 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.</p> <p>We are not aware of any situations to date 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>

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