



## **FINANCE, AUDIT AND RISK COMMITTEE**

### **Agenda**

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#### **NOTICE OF MEETING**

An ordinary meeting will be held in the Supper Room, Waihinga Centre, Texas Street, Martinborough on Wednesday 5 June 2019 at 9:00am. 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 Brian Jephson (Chair), Pam Colenso, Ross Vickery and Colin Wright.

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#### **Open Section**

- 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 March 2019  
***Proposed Resolution:*** *That the minutes of the Assets and Services Committee meeting held on 20 March 2019 are a true and correct record.*
- A7.** Notices of motion

Pages 1-3

#### **B. Decision Reports from Chief Executive and Staff**

- B1.** Destination Wairarapa Report (to be tabled)

## C. Information and Verbal Reports from Chief Executive and Staff

C1.	Financial Report for period ending 31 March 2019	Pages 4-16
C2.	Project Summary Report	Pages 17-19
C3.	Health and Safety Report	20-25
C4.	Audit NZ Audit Plan	Pages 26-42

## Public Excluded

**Proposed Resolution:** *That the public be excluded from the following parts of the proceedings of this meeting, namely:*

### D1. Rates Penalty Remission (to be tabled)

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:

<b>Report/General Subject Matter</b>	<b>Reason for passing this resolution in relation to the matter</b>	<b>Ground(s) under Section 48(1) for the passing of this Resolution</b>
Rates Penalty Remission	Good reason to withhold exists under section 7(2)(a)	Section 48(1)(a)

This resolution is made in reliance on Section 48(1)(a) 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:

<b>Reason for passing this resolution in relation to the matter</b>	<b>Ground(s) under Section 48(1) for the passing of this Resolution</b>
a) to protect the privacy of natural persons, including that of deceased natural persons	Section 7(2)(a)



## FINANCE, AUDIT AND RISK COMMITTEE

**27 March 2019**

**Members' Present:** Deputy Mayor Brian Jephson (Chair), Councillors Pam Colenso, Colin Wright, Ross Vickery and Mayor Viv Napier.

**In Attendance:** Jennie Mitchell (Group Manager Corporate Support), Katrina Neems (Finance Manager) and Suzanne Clark (Committee Secretary).

**Conduct of Business:** The meeting was held in the Supper Room, Waihinga Centre, Texas Street, Martinborough and was conducted in public between 11:30am and 1:30pm.

**Also in attendance:** Councillor Mike Gray and Andrew Michl (Local Government Funding Authority (LGFA)).

### Open Section

**A1. Apologies**

*FINANCE, AUDIT AND RISK RESOLVED (FAR2019/01) to accept apologies from Mr Paul Crimp.*

*(Moved Mayor Napier/Seconded Cr Colenso)*

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**

Standing Orders will be used if needed.

**A6. Minutes for Receipt**

*FINANCE, AUDIT AND RISK RESOLVED (FAR2019/02) that the notes from the Risk and Audit Working Party meeting held 29 January 2019 be received.*

*(Moved Cr Jephson/Seconded Cr Wright)*

Carried

**DISCLAIMER**

*Until confirmed as a true and correct record, at a subsequent meeting, the minutes of this meeting should not be relied on as to their correctness*

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## **A7. Notices of Motion**

There were no notices of motion.

## **B Decision Reports from Chief Executive and Staff**

### **B1. Feedback, Compliments and Complaints and Policy N800**

Members agreed to change the title of the policy to place more emphasis on receiving compliments and complaints and altered the next review date to allow for one year's trial of the policy.

*FINANCE, AUDIT AND RISK RESOLVED (FAR2019/03)*

1. To receive the Feedback Compliments and Complaints Policy N800 Report.  
(*Moved Mayor Napier/Seconded Cr Vickery*) Carried
2. To recommend that Council approves the Compliments, Complaints and Feedback Policy N800.
3. To recommend that Council agree that the next review date should be April 2020.  
(*Moved Jephson/Seconded Cr Colenso*) Carried

### **B2. Local Government Funding Authority (LGFA) Guarantor Proposal**

Mr Michl outlined the governance structure and operations of the LGFA. Members discussed benefits, risks, public disclosure requirements, shareholder reporting, and legal joining fees with Mr Michl and Ms Mitchell.

*FINANCE, AUDIT AND RISK RESOLVED (FAR2019/04)*

1. To receive the Becoming a Guarantor Borrower with LGFA Report.  
(*Moved Cr Colenso/Seconded Cr Vickery*) Carried
2. To recommend to Council to become a guarantor member of the Local Government Funding Agency.  
(*Moved Mayor Napier/Seconded Cr Wright*) Carried

### **B3. Data Security and Risk Register**

Members deemed recommendation two was not required as recommendations three and four covered all necessary points with the recommended changes shown as tracked changes in the policy. Members agreed that the policy needed to be widened to include everyone that had access to confidential information.

*FINANCE, AUDIT AND RISK RESOLVED (FAR2019/05):*

1. To receive the Data Security and Risk Register Report.  
(*Moved Cr Colenso/Seconded Cr Jephson*) Carried
2. To recommend to Council to approve the changes to the Information and Technology (IT) Policy N600.
3. To recommend to Council that the review date of the policy is April 2020.
4. To agree to add the issue of data security on mobile devices to the Risk register.  
(*Moved Cr Wright/Seconded Cr Jephson*) Carried

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**C Decision Reports from Chief Executive and Staff**

**C1. Financial Report**

Ms Mitchell discussed the report and answered members’ questions on miscellaneous income, solid waste management, rates arrears, a potential rates remission, quarterly capital expenditure forecast and borrower notes.

Members noted that the working capital as outlined in ‘Section 3 Statement of Financial Position’ of the Financial Report should be \$14,324k, not \$14k.

*FINANCE, AUDIT AND RISK RESOLVED (FAR2019/06)* to receive the Financial Report.

*(Moved Cr Vickery/Seconded Cr Jephson)*

Carried

**C2. NZTA Report**

*FINANCE, AUDIT AND RISK RESOLVED (FAR2019/07)* to receive the NZTA Audit Report.

*(Moved Mayor Napier/Seconded Cr Colenso)*

Carried

**C3. Project Update Summary**

Ms Mitchell discussed the report with members and agreed to add the Martinborough water incident and Featherston flood remedial works to the schedule.

*FINANCE, AUDIT AND RISK RESOLVED (FAR2019/08)* to receive the Project Summary Report.

*(Moved Cr Colenso/Seconded Mayor Napier)*

Carried

**C4. Verbal Update on Interim Audit**

Ms Mitchell reported that the outcome from the interim audit review was good and outlined findings.

**C5. Verbal Update on Potential Insurance Claim**

Ms Mitchell outlined a situation resulting from an incorrect LIM being issued to a prospective purchaser advising that Council were actively working to correct the mistake with the property owner but there would be a cost to Council.

Internal process changes have been made to ensure a similar situation cannot occur again.

**Confirmed as a true and correct record**

.....(Mayor)

.....(Date)

**DISCLAIMER**

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# FINANCE, AUDIT AND RISK COMMITTEE

5 JUNE 2019

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## AGENDA ITEM C1

### FINANCIAL REPORT

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#### **Purpose of Report**

To present financial results for the seven month period to 31 March 2019 and other related financial information.

#### **Recommendations**

Officers recommend that the Committee:

1. *Receive the Financial Report for the period ended 31 March 2019.*

#### **1. Background**

Officers have prepared the following Financial Reports for review by the Finance, Audit and Risk Committee:

- Monthly financial statements to 31 March 2019
- Rates arrears report to 30 April 2019

#### **2. Summary**

##### **2.1 Financial Statements**

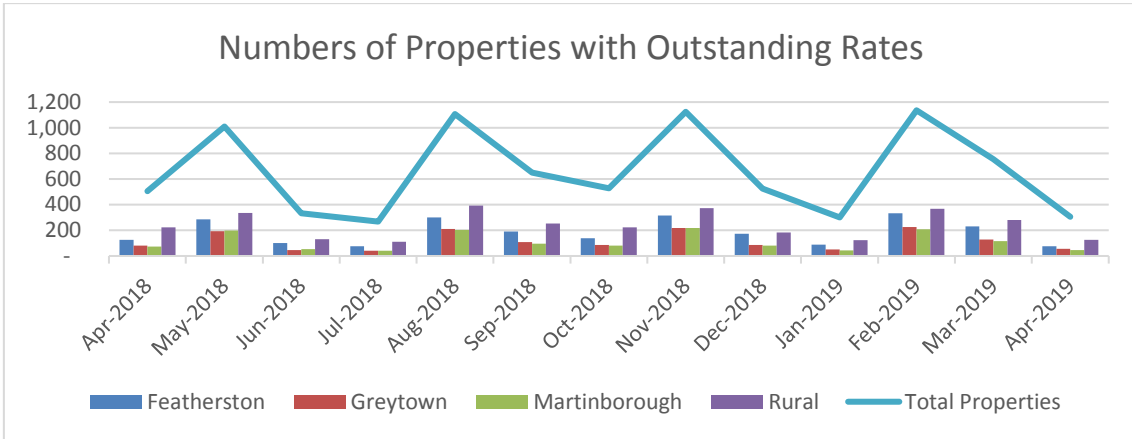
The financial statements for the nine month period to 31 March 2019 include commentary on results and variances year to date and are included in Appendix 1.

##### **Highlights**

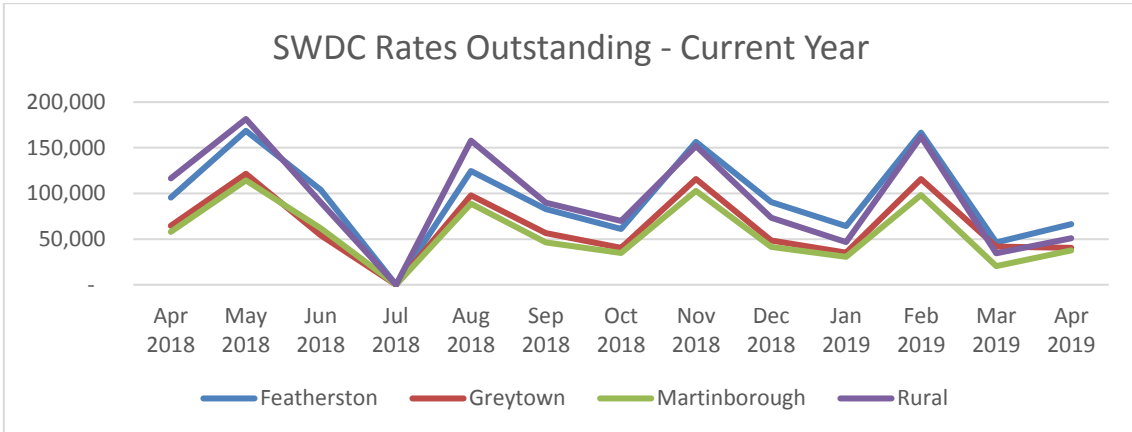
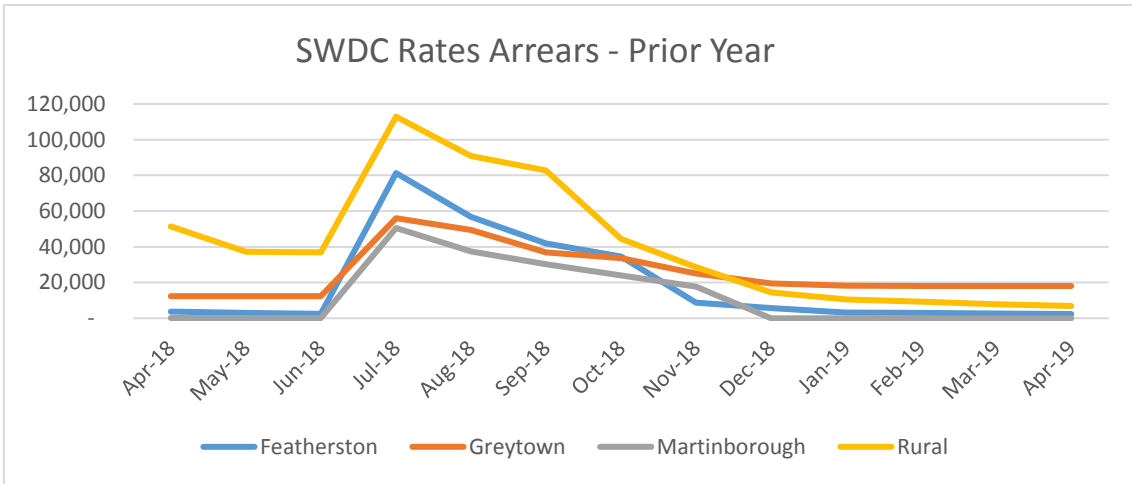
- Year to date operating deficit is \$579K vs. budget deficit of \$1,036K the result is favourable to budget by \$456K.
- Total surplus YTD is \$1,177K vs. budget deficit of \$120K, favourable by \$1,057K.

##### **2.2 Rates Arrears**

The rates arrears graphs below show continued improvement in the recovery of overdue rates which is due to a consistent approach to dealing with our overdue debtors.



The total amount owing in arrears from prior years is \$30,000, possibly an all-time record. This represents 8 ratepayers of which 3 are on repayment plans, 3 have issues with the title of their property, 2 lodged with debt collectors.



### 3. Appendices

Appendix 1 – Financial Statements to 31 March 2019

Contact Officer: Katrina Neems, Finance Manager

Reviewed by: Jennie Mitchell, Acting CEO



**Appendix 1 –**

**South Wairarapa District  
Council**

**Financial Statements**

**to 31 March 2019**

**SUMMARY OF HIGHLIGHTS  
STATEMENT OF FINANCIAL PERFORMANCE  
STATEMENT OF FINANCIAL POSITION  
STATEMENT OF CASHFLOWS  
SCHEDULE OF CAPITAL EXPENDITURE  
SCHEDULE OF INVESTMENTS**

# South Wairarapa District Council

## Financial Report

for the nine months ending 31 March 2019

### 1. SUMMARY & HIGHLIGHTS

#### Purpose

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

Year to date budget vs actual.

Commentary on material variances.

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

#### Highlights

Year to date operating deficit is \$579K vs. budget deficit of \$1,036K the result is favourable to budget by \$456K.

Total surplus YTD is \$1,177K vs. budget deficit of \$120K, favourable by \$1,057K.

Rates Penalties unfavourable by \$20K.

Interest receivable favourable \$16K

Fees and Licences favourable \$71K

User Levies favourable \$35K

Rental/Hire is favourable by \$56K

Overall Operating income is favourable by \$128K.

Operating Expenditure is unfavourable by \$136K

Working Capital which expresses the ability of council to meet its short term obligations is strong with a ratio in excess of 4 times, and a total value of \$13,697K.

Interest cost 4.29% of rates revenue, SWDC maximum 12%.

Current Net debt \$19,500K, at 3.15% average borrowing rate. Maximum debt per LTP: \$25,820k.

The disposal of the obsolete Greytown water treatment plant resulted in a loss of \$461k

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

Favourable to budget \$19K.

##### Rates Penalty

Revenue from rates penalties are underbudget by \$20K reflecting the work the rates team does collecting overdue rates and getting people onto payment plans and direct debits early

### **Interest Revenue**

Interest received on term deposits has \$16K favourable variance YTD. This is a reflection of slightly higher short term deposit rates, and timings of investments.

### **Fees & Licences**

Favourable \$71K. The number of building consents remains high \$35K over budget, resource consents income also up \$60K over budget, Liquor & Health licences are on budget.

### **User Levies**

Favourable by \$35K.

### **NZTA Subsidy**

Operating Income \$13K favourable, Capital Income \$32K unfavourable. The full year programme is expected to be met so actual should align with budget at year end.

### **Rental / Hire**

Favourable \$56K. Rental income has a \$22K F variance from increased use of public buildings notably GTN and MBA; and wastewater rental \$33K F due to rental from FTN land

### **Miscellaneous Income**

Unfavourable \$87K, this includes \$23K of footpath deposits being repaid to property owners having been written down in the last financial year

## **OPERATING EXPENDITURE**

### **Corporate Services**

On Budget

### **In-house Professional Services**

Unfavourable \$56K, mainly due to valuation costs not budgeted until later in the year, plus salaries and wages being over budget.

### **Governance**

Unfavourable \$48K. \$45K is the Featherston sculpture grant which is using funds carried forward from previous years.

### **Public Protection**

Overall Public Protection expenditure is on Budget, there are some variances in the outputs below that offset each other.

### **Public Protection & Health**

Unfavourable \$19K

### **Building and Construction**

Favourable \$30K, due to savings in vehicle expenses, salaries and software licences YTD.

### **Animal Control**

On budget.

### **Emergency Management**

Unfavourable \$10K due to phasing of budget.

### **Resource Management**

Favourable \$40K, Salaries and wages \$21K F due to staff changes and vacancy for a short time, Legal expenses \$25K F.

### **Economic Cultural & Community Development**

#### ***Economic Development***

On Budget

#### ***Community Wellbeing***

Favourable 22K due to Grants paid being under budget by 18K. The full budgeted cost is expected to be utilised by end of year

### **Amenities**

Overall Amenities are Unfavourable by \$10K, there are some variances in the outputs below that offset each other.

#### ***Swimming Pools***

Favourable \$72K. Maintenance on the pools has been delayed through the summer months. Work is now underway and the full budget is expected to be utilised this financial year.

#### ***Community Buildings***

On budget.

#### ***Cemeteries***

On budget.

#### ***Rental Properties***

Unfavourable \$61K, \$36K due to expenses on properties intended for sale not budgeted. R&M unfavourable \$24K due to Old MBO Library Painting & FTN sport stadium overlay interior walls with ply and lighting not budgeted for.

#### ***Toilets***

Unfavourable \$21K, mainly Utilities and R & M unfavourable to budget YTD. This is expected to balance out at end of the year.

### **Land Transport**

Actual Expenditure YTD \$3,270K, made up of:

- Subsidised \$3,074K
- Non Subsidised \$226K

Favourable \$439K, to budget year to date, expected to be on track at year end.

### **Water Supply**

Unfavourable by \$53K. Martinborough Water Issue costs to March \$44k

### **Solid Waste Management**

Favourable variance of \$33K

### **Wastewater**

Favourable \$142K. This includes a reduction in depreciation of \$79K due to delayed capital expenditure, and utilities under budget by \$54K YTD.

### **Stormwater Drainage**

Favourable \$22K, mainly due to favourable routine maintenance spend.

## **CAPITAL EXPENDITURE INCOME**

### **NZ Transport Agency**

\$32k unfavourable to budget YTD.

### **Grants**

Total grants \$417k to date. This includes donations for the Waihinga Centre - Pain Farm of \$100k; Plunket \$140k; Waihinga Trust \$150k; Lottery grant \$25k

### **Contributions**

Favourable \$87K due to increased development activity in the district.

## **3. STATEMENT OF FINANCIAL POSITION**

### **Working Capital**

Working capital (current assets less current liabilities) stands at \$13,697K. (30 June 2018 \$8,802K).

### **Prepayments and Receivables**

Prepayments and receivables total \$1,070K. Key components are General Debtors \$293K, Interest receivable \$190K, NZTA subsidies \$108K, Rates Receivable \$333k, GST Receivable \$130k

### **Payables and Accruals**

Payables and accruals total \$3,602K. Key items are Sundry creditors \$490K, Rates in advance 523k, Rates owing to GWRC \$887K, Contract retentions \$267K

### **Public Debt Current Portion**

The comparative column shows a variance between the 30 June amount and that now reported. For the annual report we are required to split out the current and term portions of the public debt. For management reporting we report all public debt as one amount. (Non-current)

### **Gross Public Debt**

Total public debt stands at \$19,900K. This has increased by \$2,400k in 2018/19 for planned waste water infrastructure and purchase of Featherston Golf Club land

### **Movement in Equity**

The movement in equity of (\$6,675m) is made up of the current year's surplus of \$1,177m and a debit of (\$7,852m) being a correction to the 2018 valuation of roading assets.

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE PERIOD ENDED 31 MARCH 2019**

2018		YTD			2019	
LY Actual		Actual	Budget	Variance	Budget	% of Budget
	<b><u>OPERATING INCOME</u></b>					
9,905,887	Rates	10,521,053	10,501,777	19,276	13,993,011	75%
125,249	Rates Penalty	99,014	119,458	(20,444)	140,000	71%
341,514	Interest	331,869	315,738	16,131	449,099	74%
15,674	Internal Loans	15,674	15,675	(1)	20,880	75%
907,812	Fees & Licences	956,562	885,355	71,207	1,154,450	83%
473,487	User Levies	446,498	411,931	34,567	700,315	64%
49,307	Commissions	56,279	46,958	9,321	69,650	81%
1,408,968	NZ Transport Agency Subsidy	729,160	715,692	13,468	1,261,390	58%
73,433	Petrol Tax	74,335	63,311	11,024	82,905	90%
9,711	Grants, Donations & Subsidies	16,867	12,898	3,969	15,198	111%
372,926	Rental / Hire	409,919	353,075	56,844	503,938	81%
50,572	Profit on Sale of Assets	-	-	-	-	0%
306,558	Miscellaneous Income	(1,956)	84,975	(86,931)	137,689	-1%
14,041,099	<b>Total Operating Income</b>	13,655,274	13,526,843	128,431	18,528,525	
	<b><u>OPERATING EXPENDITURE</u></b>					
1,372,475	Corporate Services	1,496,152	1,495,927	(225)	2,017,155	74%
689,642	In-House Professional Services	817,055	760,968	(56,087)	1,034,152	79%
354,161	Governance, Leadership & Advocacy	431,760	383,952	(47,808)	546,556	79%
963,522	Public Protection	992,641	993,166	525	1,355,145	73%
378,432	Resource Management	345,750	385,576	39,826	526,493	66%
267,116	Economic, Cultural & Community Development	347,071	369,063	21,992	464,229	75%
1,929,865	Amenities	2,109,090	2,099,032	(10,058)	2,735,816	77%
3,912,359	Land Transport	3,270,463	3,541,495	271,032	5,110,234	64%
1,754,055	Water Supply	1,890,657	1,790,378	(100,279)	2,388,643	79%
1,070,151	Solid Waste Management	1,091,664	1,124,562	32,898	1,414,226	77%
1,154,694	Wastewater	1,300,336	1,442,867	142,531	1,886,427	69%
129,574	Stormwater Drainage	123,500	145,191	21,691	184,425	67%
13,751	Rate Debtors Remissions	14,131	30,337	16,206	40,000	35%
-	Loss on Sale of Assets	-	-	-	-	0%
13,989,797	<b>Total Operating Expenditure</b>	14,234,552	14,562,514	327,962	19,703,501	
51,303	<b>Operating Surplus/(Deficit)</b>	(579,278)	(1,035,671)	456,393	(1,174,976)	
	<b><u>OTHER INCOME AND EXPENDITURE</u></b>					
	<b><u>Other Income</u></b>					
402,059	CAPEX portion of NZTA Subsidy	644,242	676,489	(32,247)	1,192,296	54%
687,544	Contributions	566,851	479,829	87,022	1,036,888	55%
1,178,800	Grants, Donations & Subsidies	417,578	-	417,578	-	0%
-	Assets Vesting in Council	589,137	-	589,137	-	0%
-	Gain on Asset Revaluations	-	-	-	38,868	0%
2,268,403	<b>Total Other Income</b>	2,217,808	1,156,318	1,061,490	2,268,053	
	<b><u>Other Expenditure</u></b>					
-	Loss on Disposal of Assets	461,131	-	(461,131)	-	
-	<b>Total Other Expenditure</b>	461,131	-	(461,131)	-	
\$ 2,319,706	<b>TOTAL SURPLUS / (DEFICIT)</b>	\$ 1,177,399	\$ 120,647	\$ 1,056,752	\$ 1,093,077	

Included in the operating expenditure is:						
3,355,782	Depreciation	3,359,394	3,617,541	(258,147)	4,892,393	69%
430,222	Interest	451,193	558,096	(106,903)	740,220	61%

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2019**

	31 MARCH 2019	30 JUNE 2018	MOVEMENT
<b><u>ASSETS</u></b>			
<b><u>Current Assets</u></b>			
Cash and Bank	124,729	161,549	(36,820)
Short Term Deposits	2,623,349	4,050,072	3,773,784
Reserve and Loan redemption Term deposits	5,200,507	-	-
Investments	6,567,714	9,065,743	(2,498,028)
Prepayments & Receivables	1,069,818	2,757,040	(1,687,221)
Inventories	22,926	23,647	(720)
Properties Intended For Sale	1,500,000	1,500,000	-
<b>Total Current Assets</b>	<b>17,109,044</b>	<b>17,558,050</b>	<b>(449,006)</b>
<b><u>Non-Current Assets</u></b>			
Investments	410,298	375,022	35,276
Term Deposits	-	1,765,421	(1,765,421)
Investment Properties	8,455,255	8,435,000	20,255
Intangible Assets	95,612	124,513	(28,901)
Properties Intended For Sale	-	-	-
Property, Plant & Equipment	435,262,254	438,692,798	(3,430,544)
<b>Total Non-Current Assets</b>	<b>444,223,419</b>	<b>449,392,754</b>	<b>(5,169,335)</b>
<b>TOTAL ASSETS</b>	<b>\$ 461,332,463</b>	<b>\$ 466,950,804</b>	<b>\$ (5,618,341)</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities</u></b>			
Cash and Bank	-	-	-
Payables and Accruals	3,061,584	4,373,741	(1,312,157)
Employee Entitlements	316,465	347,769	(31,304)
Public Debt - Current Portion	-	4,000,000	(4,000,000)
Provisions - Current Portion	34,043	34,043	-
<b>Total Current Liabilities</b>	<b>3,412,092</b>	<b>8,755,554</b>	<b>(5,343,461)</b>
<b><u>Non-Current Liabilities</u></b>			
Public Debt - Non-Current Portion	19,900,000	13,500,000	6,400,000
Provisions - Non-Current Portion	433,901	433,900	-
<b>Total Non-Current Liabilities</b>	<b>20,333,901</b>	<b>13,933,900</b>	<b>6,400,000</b>
<b><u>EQUITY</u></b>			
Public Equity	153,570,931	151,083,249	2,487,682
Special Separate & Trust Funds	22,724,914	22,724,914	-
Asset Revaluation Reserve	261,288,323	270,450,885	(9,162,562)
Sinking Fund Reserves	-	-	-
Other Reserves	2,303	2,303	-
<b>Total Equity</b>	<b>437,586,471</b>	<b>444,261,350</b>	<b>(6,674,879)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 461,332,463</b>	<b>\$ 466,950,804</b>	<b>\$ (5,618,341)</b>

## STATEMENT OF CASHFLOWS AS AT 31 MARCH 2019

	31 MARCH 2019	31 MARCH 2018	30 JUNE 2018
<b><u>OPERATING ACTIVITIES</u></b>			
<b><u>Cash was provided from:</u></b>			
Rates	11,782,374	10,103,204	13,320,429
Grants & Subsidies	3,027,624	3,117,237	4,514,636
Petrol Tax	48,536	71,538	95,559
Other Income	3,113,396	3,201,872	4,293,551
Interest on Investments	249,718	285,807	414,296
<b>Total Operating Cash Inflow</b>	<b>18,221,648</b>	<b>16,779,657</b>	<b>22,638,471</b>
<b><u>Cash was applied to:</u></b>			
Payments to Suppliers & Employees	12,467,105	10,845,456	12,302,325
Interest Paid	412,140	401,286	570,471
<b>Total Operating Cash Outflow</b>	<b>12,879,245</b>	<b>11,246,741</b>	<b>12,872,796</b>
<b>Net Cashflow from Operating Activities</b>	<b>5,342,403</b>	<b>5,532,915</b>	<b>9,765,675</b>
<b><u>INVESTING ACTIVITIES</u></b>			
<b><u>Cash was provided from:</u></b>			
Sale of Property, Plant & Equipment	-	264,522	276,612
Term Investments, Shares & Advances	4,263,449	-	6,510,056
<b>Total Investing Cash Inflow</b>	<b>4,263,449</b>	<b>264,522</b>	<b>6,786,668</b>
<b><u>Cash was applied to:</u></b>			
Purchase of Property, Plant & Equipment	7,807,759	3,886,696	7,969,751
Term Investments, Shares & Advances	461,131	88,000	10,895,165
Investments in Loan Redemption & Sinking Funds	-	-	-
<b>Total Investing Cash Outflow</b>	<b>8,268,890</b>	<b>3,974,696</b>	<b>18,864,916</b>
<b>Net Cashflow from Investing Activities</b>	<b>(4,005,439)</b>	<b>(3,710,172)</b>	<b>(12,078,248)</b>
<b><u>FINANCING ACTIVITIES</u></b>			
<b><u>Cash was provided from:</u></b>			
Public Debt	4,400,000	-	4,000,000
<b>Total Financing Cash Inflow</b>	<b>4,400,000</b>	<b>-</b>	<b>4,000,000</b>
<b><u>Cash was applied to:</u></b>			
Repayment of Public Debt	2,000,000	-	4,000,000
<b>Total Financing Cash Outflow</b>	<b>2,000,000</b>	<b>-</b>	<b>4,000,000</b>
<b>Net Cash Flow from Financing Activities</b>	<b>2,400,000</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH</b>	<b>3,736,965</b>	<b>1,822,744</b>	<b>(2,312,572)</b>
<b>OPENING CASH BALANCE</b>	<b>1 JULY 2018</b>	<b>6,524,195</b>	<b>6,524,195</b>
<b>CLOSING CASH BALANCE</b>	<b>31 MARCH 2019</b>	<b>\$ 8,346,939</b>	<b>\$ 4,211,621</b>
<b><u>REPRESENTED BY:</u></b>			
Cash and Cash equivalents	124,729	100,945	161,549
Short Term Deposits	7,823,857	8,245,994	4,050,072
Investments (Current)	-	-	-
	<b>\$ 7,948,586</b>	<b>\$ 8,346,939</b>	<b>\$ 4,211,621</b>



**SCHEDULE OF CAPITAL EXPENDITURE  
FOR THE PERIOD ENDED 31 MARCH 2019**

<b>DESCRIPTION</b>	<b>Year to Date</b>		<b>Annual</b>	<b>Budget</b>	<b>Total</b>
	<b>Actual</b>	<b>Budget</b>	<b>Budget</b>	<b>Brought Forward from Prev Years</b>	<b>Budget Available</b>
<b>Baseline CAPEX:</b>					
Amenities	1,763,467	568,845	758,424	1,922,205	2,680,629
Water Supply	205,498	600,930	801,248	358,963	1,160,211
Solid Waste Management	33,014	252,342	336,450	20,000	356,450
Stormwater Reticulation	-	41,085	54,779	53,600	108,379
Wastewater*	4,208,306	1,705,464	2,273,950	3,048,300	5,322,250
Land Transport	1,303,520	1,600,452	2,133,934	-	2,133,934
Information Technology	104,512	118,314	157,748	53,753	211,501
Council Property**	3,836	458,496	611,319	32,745	644,064
	<u>\$ 7,622,153</u>	<u>\$ 5,345,928</u>	<u>\$ 7,127,852</u>	<u>\$ 5,489,566</u>	<u>\$ 12,617,418</u>

\*Papawai pipeline delayed due to other priorities, partially offset by purchase of FTN Golf Club and additional costs for FTN WW to land consent

\*\*Delay office refurbishment until next financial year

**SUMMARY OF INVESTMENTS**

Mar-19

ORGANISATION		INTEREST RATE	INVESTED DATE	MATURITY DATE	Term	TOTAL INVESTED	INVESTED FUNDS %	AUTHORISED FUNDS %
<b>SHORT TERM FUNDS</b>								
<b>Registered Banks</b>								
	<b>Code</b>							
ASB Call account	99182811	1.25%	31-Mar-19	On Call	On Call	\$225,371.09		
ASB Term Deposit - Loan redemption	99182811	2.28%	20-Mar-19	20-May-19	61 days	\$1,000,000.00		
ASB Reserve Fund	99182811	3.58%	13-Jun-18	13-Jun-19	365 days	\$300,000.00		
ASB Term Deposit - Loan redemption	99182811	3.68%	23-Jan-18	15-Jul-19	538 days	\$225,000.00		
ASB Term Deposit - Loan redemption	99182811	3.58%	25-Jul-18	25-Jul-19	365 days	\$225,000.00		
ASB Term Deposit - Loan redemption	99182811	3.76%	27-Apr-18	17-Oct-19	538 days	\$226,000.00		
ASB Term Deposit - Loan redemption	99182811	2.28%	27-Feb-19	18-Apr-19	50 days	\$500,000.00		
ASB Term Deposit - Loan redemption	99182811	2.28%	21-Feb-19	20-Apr-19	58 days	\$500,000.00		
						<b>\$3,201,371.09</b>	<b>22%</b>	<b>30%</b>
ANZ CALL ACCOUNT	99182813	0.70%	31-Mar-19	On Call	On Call	\$71.40		
ANZ Term Deposit	99182813	3.42%	20-Nov-18	20-May-19	181 days	\$1,000,000.00		
ANZ Reserve Fund	99182813	3.54%	22-Jun-18	24-Jun-19	367 days	\$750,000.00		
ANZ Term Deposit - Loan redemption	99182813	3.45%	4-Jan-19	3-Jan-20	365 days	\$150,000.00		
						<b>\$1,900,071.40</b>	<b>13%</b>	<b>30%</b>
BNZ AUTOCALL (-025)	99182812	0.10%	31-Mar-19	On Call	On Call	\$501,347.35		
BNZ Term Deposit	99182812	1.74%	19-Mar-19	2-Apr-19	14 Days	\$1,000,000.00		
BNZ Reserve Fund	99182812	3.66%	24-May-18	24-May-19	365 days	\$1,000,000.00		
BNZ Term Deposit	99182812	3.26%	29-Mar-19	24-Sep-19	180 days	\$600,000.00		
BNZ Loan Redemption	99182812	3.61%	12-Nov-18	12-Nov-19	365 days	\$375,000.00		
						<b>\$3,476,347.35</b>	<b>24%</b>	<b>30%</b>
KIWI BANK Term Deposit	99182819	1.75%	31-Mar-19	On call	On call	\$0.00		
KIWI BANK Term Deposit	99182819	3.10%	23-Oct-18	23-Apr-19	182 days	\$500,000.00		
KIWI BANK Loan Redemption	99182819	3.45%	23-Oct-18	23-Oct-19	365 days	\$500,000.00		
KIWI BANK Loan Redemption	99182819	3.60%	13-Nov-18	13-Nov-19	365 days	\$225,000.00		
						<b>\$1,225,000.00</b>	<b>9%</b>	<b>30%</b>
WBS Call account	99182816	0.50%	31-Mar-19	On Call	On Call	\$1.30		
WBS Reserve fund	99182816	3.60%	22-Nov-18	22-Nov-19	365 days	\$190,705.06		
WBS Reserve fund	99182816	3.60%	25-Nov-18	25-Nov-19	365 days	\$184,799.54		
WBS Reserve fund	99182816	3.55%	21-Dec-18	21-Dec-19	365 days	\$150,000.00		
						<b>\$525,505.90</b>	<b>4%</b>	<b>10%</b>
WESTPAC TRUST ONLINE CALL	99182814	0.10%	31-Mar-19	On Call	On Call	\$13.24		
WESTPAC Term Deposit	99182814	2.57%	20-Mar-19	20-May-19	61 days	\$500,000.00		
WESTPAC Term Deposit	99182814	2.58%	26-Mar-19	27-May-19	62 days	\$700,000.00		
WESTPAC Reserve Fund	99182814	3.45%	22-Jun-18	24-Jun-19	367 days	\$1,314,421.02		
WESTPAC Term Deposit - Loan redem	99182814	3.45%	23-Oct-18	23-Oct-19	365 days	\$500,000.00		
WESTPAC Term Deposit	99182814	2.47%	21-Feb-19	5-Apr-19	43 days	\$500,000.00		
WESTPAC Term Deposit	99182814	2.45%	27-Feb-19	18-Apr-19	50 days	\$500,000.00		
						<b>\$4,014,434.26</b>	<b>28%</b>	<b>30%</b>
<b>TOTAL</b>						<b>\$14,342,730.00</b>	<b>100%</b>	<b>100%</b>
<b>INVESTMENTS</b>								
LGFA Borrower Bonds	NZLGFDDG472C5	3.01%	20-Jun-16	15-Apr-23		\$28,800.00		
LGFA Borrower Bonds	NZLGFDDG472C3	2.81%	20-Jun-16	15-May-21		\$91,200.00		
LGFA Borrower Bonds		2.98%	20-Feb-17	15-Apr-20		\$32,000.00		
LGFA Borrower Bonds	SR0420LX63	1.95%	15-Mar-19	15-Apr-20		\$48,000.00		
LGFA Borrower Bonds	SR1121LX63	2.03%	15-Mar-19	15-Apr-20		\$22,400.00		
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		
						<b>\$318,400.00</b>		
<b>FORESTRY</b>								
Plantation - Hurupi Stock	99283827					\$9,305.00		
						<b>\$9,305.00</b>		
<b>SHARES</b>								
FARMLANDS	99283825					\$1,159.00		
NZ LOC GOVT INS CO	99283823					\$81,434.30		
						<b>\$82,593.30</b>		
<b>TOTAL INVESTMENTS</b>						<b>\$14,753,028.30</b>		

# FINANCE, AUDIT AND RISK COMMITTEE

5 JUNE 2019

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## AGENDA ITEM C2

### PROJECT SUMMARY REPORT

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#### **Purpose of Report**

To provide the Committee with an update on Council projects.

#### **Recommendations**

Officers recommend that the Committee:

1. *Receive the Project Summary Report.*

#### **1. Executive Summary**

A brief report on the status of current Council projects is attached in Appendix 1 for the Committee's information.

#### **2. Appendices**

Appendix 1 – Project Summary

Contact Officer: Jennie Mitchell, Acting Chief Executive Officer

# **Appendix 1 – Project Summary**

**Project update - Finance, Audit and Risk Committee  
June 2019 meeting**

Project	Update
WW to land - GTN	Testing of irrigation equipment commenced 20 May 2019.
WW to land - FTN - long term consent (35 Yrs)	Hearing deferred until September 2019. Working with GWRC, WWL and subject matter experts. Also working on communications and engagement plan with community and submitters.
WW to land - FTN - short term consent (5 yrs)	Consent lodged 10 January 2019, but subsequently withdrawn to improve submission. Waiting to decide whether or not to resubmit subject to progress with 35 year consent.
WW to land - MBA	Operating to plan
Houses at Whatarangi Cliffs	No change from insanitary or dangerous for the buildings perspective. Building team visit after storm events and while in the area to check for any changes. We got the following back from GWRC: Their advisor is organising consultant advice input on this coastal erosion/land impact and ongoing hazard topic. They have a contract to help complete a first order coastal vulnerability assessment. The idea is that Councils can use this to prioritise funding and work programmes for coastal adaptation to climate change and natural hazards. It's a co-funded project with each participating council chipping in an amount on a pro rata basis, with bigger councils are contributing more. See report re rates arrears on badly eroded property.
Lease of FTN Golf Club Land	Settlement went ahead 30.11.2018. Lawyer has prepared lease for grazing lease of land. Talking with a couple of parties interested in leasing clubrooms.
Waihinga Centre	Opened 10 December 2018. Numerous small details being worked through with contractors and tenants. Final sign off due June 2019. Additional costs to get code of compliance, to be funded from the District Property Reserve.
Greytown land sale – Old Stella Bull Park	Final paperwork signed by all parties, awaiting confirmation from LINZ.
Fitzherbert Street, FTN land sale – update re Chorus	Council agreed 3 April 2019 to sell for commercial use. 57 Fitzherbert Street working party agreed to market via a real estate agent by tender. Proposals from real agents received late May 2019. To be marketed early June 2019.
MSC TOR and Policy review	MSC met 5.11.18 and are working on revised wording. Council approved (Feb 2019 meeting) funding for Amber to complete a review of wording and recommend new TOR and policy. Contract signed and work to commence in June 2019.
IT server upgrade and Disaster recovery project	Project is 98% complete. Office 365 upgrade and firewall cutover completed April 2019.
Capes Land Purchase, Greytown	Settlement paid in full 14 May 2019
Wellington Water	Shareholding approved by Council on 17 April 2019. Transition planning commenced with officers from WWL and SWDC. Transition to be completed prior to 30 September 2019.
Spatial Plan	Draft Spatial plan approved by Council 15 May 2019 for public consultation.
Office reorganisation/refurbishment	On hold until new CEO starts.
Manganese Plant update	Options being looked at with Lutra and Wellington Water. Paper to go to Assets & Services Committee 19 June 2019.
Water races rates	Review of water races rates indicated incorrect charging for a number of properties. Rates team writing to affected parties to advise of change to their rating from next year.
MBA water/Wineries	Options being looked at with Lutra and Wellington Water. Paper to go to Assets & Services Committee 19 June 2019. To date two wineries have taken up the offer of interest free loans.

# FINANCE, AUDIT AND RISK COMMITTEE

5 JUNE 2019

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## AGENDA ITEM C3

### HEALTH AND SAFETY REPORT

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#### **Purpose of Report**

To provide the Committee with an update on implementing Council's Health and Safety Strategy and Work Plan.

#### **Recommendations**

Officers recommend that the Committee:

1. *Receive the Health and Safety Report.*

#### **1. Executive Summary**

Attached in Appendix 1 is a report by Council's Health and Safety Officer on Council's progress in implementing the Health and Safety Strategy and Work Plan.

#### **2. Appendices**

Appendix 1 – Health and Safety Report

Contact Officer: Jennie Mitchell, Acting Chief Executive Officer

# **Appendix 1 – Health and Safety Report**

## South Wairarapa District Council Health and Safety Report 20 March 2019 – 24 May 2019

### HEALTH AND SAFETY STRATEGY

We continue to progress well on implementing our health and safety strategy and work plan.

### RESOURCING

There are no health and safety resourcing issues. Julie Wallace, working 1 day a week.

### HEALTH AND SAFETY – DRIVING CONTINUOUS IMPROVEMENT (lead indicators)

#### Training

SWDC are continuing to review health and safety training needs of new and existing staff. Two of our Health and Safety at Work Team attended Business Central Stage one for health and safety representative training. One of our Health and Safety at Work Team attended Business Central Stage two for health and safety representative training.

#### Engaging with our people

Health and Safety at Work Team have recently:

- Continued to look at how the team can keep health and safety alive through contributing in team meetings and providing messages to team mates in the health and safety newsletter.
- Continued to contribute to content for health and safety notice boards.
- Undertaken a hazard review of the Waihinga Centre.
- Promoted positive feedback and solution based health and safety conversations with their teams.

#### Near Miss reports

One near miss reported in the period 20 March 2019 until 24 May 2019.

#### Wellness

Organizations that prioritize wellbeing have better engagement, reduced absenteeism and higher productivity, while people have improved wellbeing, greater morale and higher job satisfaction.

- All staff continue to be offered flu injections.
- All staff offered annual wellness payment of \$200.

#### Working with our Contractors

9 Contractor audits and safety interactions undertaken	2 Contractor met expectations	1 Did not meet expectations and remedial actions taken	6 Minor remedial actions taken
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Council continue to implement the contractor management system.

- Council staff continue to evaluate contractor’s health and safety systems.
- Council staff who engage contractors continue to engage with contractors through pre-start meetings, inductions and safety audits, promoting Councils health and safety expectations.
- Work being done to review our contractor management system to ensure all staff who are engaging with contractors undertake the appropriate actions on health and safety.
- Sessions for contractors are being developed with Carterton District Council. The sessions will focus on working with the councils, working with WorkSafe and how we can work together to continue to lift our community’s health and safety performance.

### HEALTH AND SAFETY ACCIDENT & INCIDENT REPORTING (Lag indicators)

No incidents reported during the period 20 March 2019 to 24 May 2019. All incident, accident and near miss reports, including contractor incidents, are referred to the Health and Safety at Work Team and Management, who review and satisfy themselves appropriate actions have been taken and where necessary, appropriate additional controls are put in place.



## RISK MANAGEMENT

Work on hazard registers is ongoing, controls are currently being reviewed by the H&S at Work Team, and staff are encouraged to report new hazards through the monthly newsletter and staff meetings.

We will be providing updates on how we are managing our biggest risks. To give you the assurance that we understand our biggest risks, what controls and reduction measures are required, and actions we are taking.

Here is an update on two key risks we are currently focussing on:

Risk	Description of risk	Controls and reduction measures	Actions
<p><b>Contractors</b></p>	<p>Contractors undertake a number of high risk activities for Council. We have little control over Contractors staff and work standards while they are working for Council.</p> <p>We rely on them employing staff who are competent and trained, while observing safe work practices.</p>	<p>Contractors working for Council have robust health and safety systems in place, and understand their obligations. Contractors will be fully briefed, responsibilities assigned, and work will be periodically assessed to ensure agreed controls are being managed.</p>	<p>Contractor management system designed.</p> <p>Contractors asked to provide their H&amp;S systems for checking by Council.</p> <p>Once approved, contractors will be asked to sign a contractor agreement.</p> <p>Contractor pre-start briefings and inductions have been developed and provided to appropriate staff.</p> <p>Site safety audit checklists have been developed and provided to appropriate council staff. Staff who manage contractors have been undertaking safety audits and ensuring remedial actions undertaken where required. Contractor safety audit standards added to the audit checklists to assist managers and staff when undertaking a safety audit.</p> <p>When work is commissioned, a risk assessment is done to inform the frequency and type of safety audits.</p> <p>Contractor post contract safety review developed to assist managers with safety conversations with contractors when work is complete.</p>

			<p>Reviewed all our listed contractors to re-assess the risk associated with the work they are doing for council and to ensure we are getting health and safety information that is appropriate for the level of risk they are managing on council behalf. See attachment one "Contractor engagement and review".</p> <p>Work continues chasing up contractors who have provided insufficient or no information.</p> <p>Carterton District Council are working with us on running sessions for Contractors who work with both councils.</p>
<b>Lone / remote workers</b>	<p>It is not always possible for staff to work in teams or even in pairs. Often staff are required to work alone and remotely, where in some cases poor cell phone coverage is an additional factor.</p>	<p>All staff who work remotely or alone will be provided with cell phones. They will be required to sign out before they leave, including their intended location and expected time of return. This will be monitored and action taken in line with an emergency response plan if help is summoned or they fail to return by the expected time. They will be required to sign in when they return. They will be provided with a device to summon assistance which do not require cell phone coverage.</p> <p>Consideration to be given to having vehicles fitted with GPS.</p>	<p>Staff who work remotely or alone to have access to cell phones. Sign out/in systems in place and being used.</p> <p>Garmin InReach remote contact device currently being used by Bylaws team. Device meets legislative requirements by providing two way communication in areas out of cellular range. Device also provides GPS functionality, enabling manager to pinpoint location of staff.</p> <p>A second Garmin device has been purchased for use by the remainder of staff who work in lone/remote situations. Device currently being trialled by Roading team. This will be monitored, with additional devices purchased if required.</p> <p>Monitoring process for sign out/in system developed and implemented by Bylaws and Roading teams.</p>

			<p>Training in the use of the device, monitoring, and emergency procedures rolled out to Managers, Bylaws and Roding team. Emergency Action Plans developed. Teams have reported monitoring and the Garmin device is working well.</p> <p>The current allocation of Garmin devices is appropriate for the work our teams are doing.</p>
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# FINANCE, AUDIT AND RISK COMMITTEE

5 JUNE 2019

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## AGENDA ITEM C4

### AUDIT PLAN REPORT

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#### **Purpose of Report**

To provide the Committee with the Audit NZ Audit Plan for the upcoming end of year audit.

#### **Recommendations**

Officers recommend that the Committee:

1. *Receive the Audit Plan Report.*

#### **1. Executive Summary**

Attached in Appendix 1 is the Audit NZ Audit Plan for South Wairarapa District Council.

#### **2. Appendices**

Appendix 1 – Audit NZ Audit Plan

Contact Officer: Jennie Mitchell, Acting Chief Executive Officer

# **Appendix 1 – Audit Plan**

# Audit plan

## South Wairarapa District Council

For the year ending 30 June 2019

# Audit plan

I am pleased to present our Audit Plan for the audit of South Wairarapa District Council (the District Council) for the year ending 30 June 2019. The purpose of this audit plan is to discuss:

Audit risks and issues .....	2
Our audit process.....	5
Reporting protocols .....	9
Audit logistics.....	10
Expectations.....	12

The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

Our work improves the performance of, and the public’s trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely

John Whittal  
Appointed Auditor  
17 April 2019

# Audit risks and issues

## Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

Audit risk/issue	Our audit response
<b>Capital projects</b>	
<p>The District Council is either in the process of completing, or has completed, the following major capital projects.</p> <p><b>Wastewater treatment upgrade</b></p> <p>The District Council is upgrading the wastewater treatment systems for Greytown and Featherston to stop pollutants entering waterways.</p> <p>These projects are at differing stages:</p> <ul style="list-style-type: none"> <li>• The Greytown construction is expected to be completed in the 2018/19 financial year.</li> <li>• The District Council continues to work with the regional council to obtain the resource consent for the Featherston project.</li> </ul> <p><b>Waihinga Centre</b></p> <p>The Waihinga Centre project was completed and became operational in December 2018. This was a significant project for the council, costing over \$5m and providing a multi-purpose community hub.</p>	<p>We will update our understanding of the projects and consider the adequacy of:</p> <ul style="list-style-type: none"> <li>• project governance and management structures;</li> <li>• procurement and project management processes applied; and</li> <li>• risk management practices.</li> </ul> <p>We will also consider the adequacy of systems in place for recording costs and commitments associated. This includes reviewing the classification of expenditure to make sure this has been accounted for in accordance with generally accepted accounting practice, identifying commitments and reviewing the District Council’s impairment assessment at balance date.</p> <p>Following completion of the Waihinga centre we will:</p> <ul style="list-style-type: none"> <li>• Review the accounting treatment of the Waihinga centre asset in the 2018/19 financial statements, including the useful life and impact on depreciation.</li> </ul>
<b>Fair value movement in a non-revaluation year</b>	



Audit risk/issue	Our audit response
<p>The District Council’s policy is to revalue its infrastructure assets on a cyclical basis. The District Council last revalued its infrastructure assets as at 30 June 2017.</p> <p>We note that it is a requirement of <i>PBE IPSAS 17 Property, Plant and Equipment</i> that the District Council performs an assessment of the fair value movement in non-revaluation years to confirm that there has been no material movement. Where evidence of material movement exists, a full revaluation is required to comply with the accounting standards.</p> <p>Due to the subjectivity involved in making this fair value assessment, there is an inherent risk that the carrying value of these assets is materially misstated in years between valuations</p>	<p>We will review consider the robustness of management’s assessments as to whether or not there is a material difference between the fair value and the carrying value of those assets.</p>
<b>The risk of management override of internal controls</b>	
<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 management’s 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>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• testing the appropriateness of selected journal entries;</li> <li>• reviewing accounting estimates for indications of bias; and</li> <li>• evaluating any unusual or one-off transactions, including those with related parties.</li> </ul>

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

### Debenture Trust Deed

This plan does not cover the debenture trust deed assurance engagement that will provide a report to the District Council and the Trustees. This will be subject to a separate engagement agreement.

### Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are

relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. In this regard, we will discuss the following questions with you:

- What role does Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to Council? Has appropriate action been taken on any lessons learned?

### ***Our responsibility***

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at [oag.govt.nz/reports/fraud-reports](https://oag.govt.nz/reports/fraud-reports).

## Our audit process

### Initial planning

Initial planning activities include verifying compliance with independence requirements and building the audit team.

### Understand your business and environment

We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of the District Council, your business, and the environment you operate in.

### Assess audit risk

We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.

### Evaluate internal controls

We update our understanding of internal controls relevant to the audit. This includes reviewing the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is done during the initial audit visits. We evaluate internal controls relevant to the audit for the whole financial year, so we consider internal controls relevant to the audit at all visits.

### Finalise the audit approach

We use the results of the internal control evaluation to determine how much we can rely on the information produced from your systems during our final audit.

### Gather audit evidence

During the final audit we will be auditing the balances, disclosures, and other information included in the District Council's financial statements and performance information.

### Conclude and report

We will issue our audit report on the financial statements and performance information. We will also report to the Council covering any relevant matters that come to our attention.

## **Materiality**

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

## **Misstatements**

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements we identify to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from representatives of the Council that specify the reasons why the corrections will not be made.

## **Professional judgement and professional scepticism**

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

### **How we consider compliance with laws and regulations**

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

### **Wider public sector considerations**

A public sector audit also examines whether:

- the District Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by the District Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the District Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the District Council or by one of more of its members, office holders, or employee.



# Reporting protocols

## Communication with management and the Council



We will meet with management and the Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

## Reports to Council



We will provide a draft of all reports to Council and management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 5 working days. Once management comments are received the report will be finalised and provided to Council.

We will also follow up on your progress in responding to our previous recommendations.

# Audit logistics

## Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Our senior audit team members are:

John Whittal	Appointed Auditor
Leon Pieterse	Engagement Quality Control Review Director
Stephen Usher	Audit Manager
Nicole Anderson	Supervisor

The Engagement Quality Control Review (EQCR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQCR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQCR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

## Timetable



Our proposed timetable is:

Interim audit begins	11 March 2019
Draft report to Council issued	25 March 2019
Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures	12 September 2019
Final audit begins	16 September 2019
Final financial statements available, incorporating all the amendments agreed to between us	7 October 2019



Annual report available, including any Chair and Chief Executive's overview or reports	7 October 2019
Audit opinion issued	23 October 2019
Draft report to Council issued	TBA

## Expectations



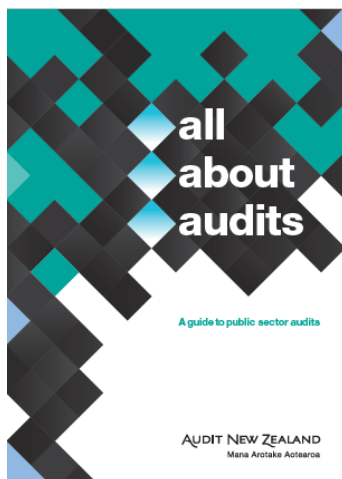
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to explain what to expect from your audit:



## Health and safety



The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

[www.auditnz.govt.nz](http://www.auditnz.govt.nz)

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