

Management report on the audit of

**Hurunui District Council**

for the year ended 30 June 2010

# **Management report**

**Audit New Zealand has carried out this audit on behalf of the Controller and Auditor-General.**

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Our audit has been carried out in accordance with the Auditor-General's auditing standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity, or inefficiency that is not material to your financial statements.

Implementing and maintaining systems of internal control for detecting these matters remains the responsibility of the Council and management.

**Statement of auditor independence**

We confirm that, for the audit of the Hurunui District Council's financial statements for the year ended 30 June 2010, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have not provided any engagements for the Hurunui District Council during the year ended 30 June 2010. In addition, we have no relationships with, or interests in, the Hurunui District Council.

**Unresolved disagreements**

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

**Other relationships**

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 Hurunui District Council that is significant to the audit.

We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Hurunui District Council during or since the end of the financial year

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# Report to the Council

from the audit for the year ended 30 June 2010.

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We have completed the audit for the year ended 30 June 2010. This report sets out our findings from the audit and draws attention to areas where Hurunui District Council (the District Council) is performing well and other areas where we make recommendations for improvement. Note that a separate report was issued following our interim audit.

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## Key messages

We have completed our audit of the Hurunui District Council and group for the year ended 30 June 2010. We issued an unqualified audit opinion on 28 October 2010.

The Council adopted the annual report before the end of October as required by the Local Government Act 2002. However, the process could be improved significantly. In particular, the first draft of the financial statements was not complete and we experienced delays in obtaining information during the audit.

An important focus area for the 2010 audit was on the District Council's service performance information. We identified opportunities to improve the detail included in the annual report and to enhance the underlying systems. These were reported in our interim management report with reporting from the final visit in Appendix 2.

There are generally appropriate, detailed systems in place to record information against the areas we considered material and no changes of substance were made to the accuracy of the reported information in the annual report.

Overall, we are satisfied that the service performance statements comply with generally accepted accounting practice and fairly reflected the actual achievements and performance of Council during the year.

While a number of the matters raised in previous years' management reports remain in progress or are outstanding, we acknowledge management's commitment to addressing the issues raised.

### Thank you

We thank the Council and management for the cooperation and assistance provided to us during the audit.

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## Section A: Significant risks and issues

### 1 Our audit opinion

#### 1.1 We issued an unqualified audit opinion

We issued an unqualified audit opinion on 28 October 2010. This means that we were satisfied that the financial statements and statement of service performance fairly reflected the District Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters.

#### 1.2 Unadjusted misstatements

The financial statements are free from material misstatement, including omissions. However, in the course of the audit, we found certain misstatements that are individually and collectively not material to the financial statements. These, along with management's reasons for not adjusting, are listed in Appendix 1.

#### 1.3 Audit of service performance reporting

##### 1.3.1 Introduction

The service performance reporting by public sector entities has generally been considered weak. This was highlighted by the Auditor-General in her 2009 Christmas letter to all public entities, when she outlined that on returning to the office, she had found very little improvement in service performance reporting in the past 15 to 20 years.

Quality service performance reporting provides critical information from which to assess performance. In the case of a Council it explains what the actual levels of service were compared to what was committed to in the LTCCP.

Effective service performance reporting is even more important in the current environment, given the increased public scrutiny and accountability, with pressure on public entities to demonstrate effectiveness and value for money. Combined with the financial reporting already included, the readers of the annual report can see how the service delivery aligns with the actual amounts spent versus what was planned.

##### 1.3.2 Work performed

As part of our audit planning and at the outset of the audit, we met with staff to outline our audit approach to this work. We reviewed the District Council's groups of activities as documented in the LTCCP and identified risks and critical aspects of the District Council's performance in the following activities:

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- roading;
  - water supply;
  - sewerage;
  - stormwater/drainage;
  - waste minimisation; and
  - Hanmer Springs Thermal Pools and Spa.

The performance measures selected included, for example, the quality of roads, correct treatment of wastewater, the quality of potable water and responses to matters that pose a serious risk to public health and safety.

We met with relevant Council staff to both update our understanding of the District Council's business, assess the effectiveness of the District Council's management control environment with respect to the SSP, at both the overall Council reporting level and at an individual activity level, and assess whether the District Council has the underlying systems in place to enable it to report accurately and completely against its performance framework.

Our audit of the reported service performance information in the Annual Report focused on:

- the completeness of the reporting against the performance framework as outlined in the LTCCP;
- the reliability and accuracy of the reporting;
- the quality of the overall "story" the performance reporting tells; and
- compliance with relevant legislation (in particular the Local Government Act 2002, Schedule 10).

### 1.3.3 Our overall conclusions

#### **Appropriateness of the performance framework**

When we performed the audit of the District Council's 2009-19 LTCCP we concluded that the performance framework provides an appropriate basis for the meaningful assessment of the District Council's actual performance reporting.

We updated our assessment to take into account any changes in the District Council's business and activities since the LTCCP was adopted. We were satisfied that the District Council's performance framework continued to provide an appropriate basis on which to assess the Council's performance.

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### **Effectiveness of the management control environment for non financial information**

The control environment at the overall reporting level is effective. In coming to this conclusion we have taken following into account.

- Performance is monitored and managed by the senior management team, through out the year.
- The quarterly reporting against performance framework to Council;
- For all material activities and the majority of performance measures there are underlying systems of internal control in place that allowed Council to report at year end.

Our findings from the review of the underlying systems for individual performance measures were reported in our interim management report.

### **Year end service performance statements**

The District Council had difficulty reporting on the measure for response times for major faults to water supplies, due to the current system not enabling the duration of leaks to be identified. Our findings and recommendations are summarised in Appendix 2.

While the District Council has not been able to report fully against this specific measure, we are satisfied that the District Council has provided sufficient information to enable the reader to assess the District Council's service performance during the year.

We are satisfied that the service performance statements comply with generally accepted accounting practice and fairly reflected the actual achievements and performance of the District Council during the year.

### **Areas for improvement identified**

There are opportunities to further enhance the District Council's service performance reporting in future years in the following ways:

- Rationalisation of measures – there are a large number of measures that are operationally based targets. The District Council should consider reducing the number of operational targets, and include more strategic targets as part of the 2012-2022 LTCCP.
- Inclusion of comparative and trend information for all measures where available. The District Council did include some comparative data but this was limited in part because of the volume of items measured.

Trend information is valuable as it highlights issues to focus on that have developed over time, providing a perspective that can be missed from a simple actual versus target comparison for a single year.

- Better explanation of results and what the District Council intends to do about those results.
- There are opportunities to further improve the review and evaluation of information received from contractors which forms part of the information District Council reports externally. This is also a critical aspect of effective contract management.

### **Management comment**

*We agree that our performance framework provides an appropriate basis for the meaningful assessment of our actual performance reporting. In this respect, we note that Hurunui District Council was highlighted in the Controller and Auditor-General's 2010 discussion paper "Local Government: Examples of better practice in setting local authorities' performance measures".*

*In the main we agree with the four recommendations made for further improvement in this area. Reducing the number of operational measures to simplify our performance framework, and providing good information, telling an understandable story about how the Council is performing compared to these fewer targets – being a mix of operational and strategic, should improve our service performance reporting. We also agree that trend information is important and work has commenced in order to improve our ability to provide this information in future.*

*However, we note that the Local Government Act 2002 Amendment Bill, which was passed last year, will have a significant impact on service performance reporting. The Secretary of Local Government is to make rules specifying performance measures as soon as reasonably practicable and may prescribe levies on local authorities to recover the costs of making these rules. These rules apply to the areas of water supply, sewerage treatment and disposal, stormwater drainage, flood protection and control works, and the provision of roads. Given this level of change, it would appear sensible to wait and see what performance measures are actually imposed upon the Council, before putting too much effort into reviewing our existing measures in these activity areas. The Council is unlikely to want to maintain two performance measurement systems in these areas, so when known, this would be an ideal time for rationalisation. For the 2011/12 DAP we believe it is best to continue to work with the performance framework consulted on and agreed through the 2009-19 LTCCP.*

*Later this year we can review our reporting framework and see if we can find a simplified and improved way of measuring and reporting for the 2012-22 LTP, hopefully having received some direction from the Secretary of Local Government. Any improvements will be evident for the 2012/13 year, with the new LTP.*

## **2 Business risks/issues**

### **2.1 Queen Mary Land**

Conclusion of the agreement for vesting of Queen Mary land with the District Council has been reached and the land was vested with the District Council on 12 August 2010. The Memorandum of Understanding with the Crown, which commits the District Council to spending an agreed amount of money on repairing and maintaining the Queen Mary site, took effect on the date the land was vested. This was after the balance date therefore there was no effect on the 2010 financial statements, except for disclosure of the vesting of the land as a subsequent event in the notes to the accounts

We will review the accounting treatment of the Queen Mary Land vesting and the District Council's accounting treatment of its obligations under the Memorandum of Understanding as part of the 2011 audit.

### **2.2 Asset Management Plans (AMPs)**

We raised a number of issues in prior period management reports from the review of the District Council's AMPs during the audit of the 2009/19 LTCCP. We understand that the District Council has recently freed up a staff member to work on improving the AMP's.

We intend to liaise with Council management at an earlier stage of the 2011 audit to monitor progress being made on the AMP's in preparation for the 2012-22 LTCCP.

### **2.3 Revaluation of property, plant and equipment**

The District Council has a policy of revaluing its land, buildings and infrastructure assets on a three yearly cycle. Roading assets were revalued as at 30 June 2010. The valuation was performed in house by the District Council's roading asset engineer, J Whyte, and peer reviewed by G Jasonsmith of AECOM.

We reviewed the methodology and assumptions for the valuations and obtained appropriate representations from the peer reviewer. We are satisfied that the valuation complies with the relevant accounting standards and that the valuation movements are reasonable and appropriately reflected in the financial statements

In respect of asset classes not revalued, the District Council performed an assessment of the potential difference between fair value and carrying value. We concurred with the District Council's conclusion that the difference is not material.

### **2.4 Weathertightness**

We considered the adequacy and appropriateness of the District Council's accounting treatment and related disclosures in the financial statements.

The District Council does not have any current claims in relation to leaky homes therefore no specific provisions have been made. The District Council has accounted

for the additional call made by Risk Pool, and also provided a general contingent liability disclosure highlighting the fact that the District Council could be liable to fund any shortfalls that the Risk Pool scheme may have due to prior years' claims of other Councils.

## **2.5 Emissions Trading Scheme**

The District Council has both pre 1990 and post 1989 forests. The District Council has not entered into or applied to enter into the scheme as yet. Therefore no contingent asset needs to be recognised. We understand that the District Council also does not have plans to de-forest.

The District Council has not taken into account carbon credits in the valuation of the forestry. This is considered reasonable given that the District Council has not applied to be in the scheme, and the effect is too uncertain at present.

## **2.6 Development contributions**

We assessed the process for setting development contributions and reviewed the collectability of unpaid development contributions. We enquired as to claims or potential claims that may indicate that development contributions could be challenged.

We believe that the process is sound and the timing of recognition of revenue and the accounting treatment is appropriate. We understand that the District Council has not had any challenges to the levying of development contributions.

## **2.7 Preparation of the financial statements**

The annual report was adopted before the end of October as required by the Local Government Act 2002. However, the process could be improved significantly. In particular, the first draft of the financial statements was not complete. For example, there were a large number of notes to the accounts without current year figures.

In addition, we experienced delays in obtaining information during the audit. This put pressure on our ability to complete the audit within agreed timeframes. In particular was the delay in obtaining the valuation report and peer review report on the roading assets valuation. These reports were only received the week before the annual report was adopted by Council.

We recognise that the earthquake in Christchurch impacted on the availability of the peer reviewer. However, this highlights the importance of early planning for the audit. Had the timing of the valuation process been arranged to enable the reports to be available at the start of our final audit, before the earthquake, these delays would not have occurred.

The District Council's process for preparing the annual report relies largely on one person, the Manager of Financial Services. It would be beneficial to broaden the responsibility for preparation of the financial statements by delegating some aspects

of the process to other staff. This may require training and development of those staff over time.

### **Management comment**

*The issue of the reliance of the Manager – Financial Services has been discussed at both Management and Council level on a number of occasions, and business cases to increase finance resourcing have been considered. The Council has made a decision it does not wish to see any increase in overheads for managing its financial responsibilities, given the size of the district. However, we have now made some adjustments in corporate staffing to provide some additional support to the financial area, specifically to assist preparing financial reports and statements and internal audit. We will continue to develop staff in the Finance Team, and at appropriate times, consider contracting some of our work externally; however, this will need to be met within existing budgets. The Manager – Financial Services will also now prepare an 'Annual Report Procedures Manual' listing all financial tasks to be undertaken each year for the preparation of the report and the dates required for doing so. The CEO will take a more active role in assisting the Financial- Service Manger prioritise this work, over and above other 'management accounting' service requests.*

*We are confident that we will be sufficiently prepared to meet our agreed timelines for future audits.*

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## Section B: Other matters

### 3 Sector matters

We completed reviews on our areas of interest across all Local Authorities. Our comments on the issues not already addressed elsewhere or in the interim management report are as follows:

#### 3.1 Council governance role in completion of Council Controlled Organisation (CCO) SOIs

We considered whether the District Council has appropriate arrangements in place for effectively fulfilling its oversight responsibilities relating to CCOs.

Enterprise North Canterbury's Statement of Intent (SOI) for 2010/11 was adopted by the District Council prior to 30 June 2010.

Hurunui Holdings Limited did not have an SOI for 2009/10 due to the company not actively trading. This is a breach of the Local Government Act 2002 that requires council controlled organisations, even if they are not actively trading, to prepare a SOI and deliver it to its shareholders on or before 1 March each year for comment. The District Council has now exempted Hurunui Holdings Limited under section 7 of the Local Government Act 2002, thereby removing the need for the Company to prepare an SOI and produce an audited annual report.

##### Management comment

*The failure to provide an SOI in 2009/10, even though Hurunui Holdings Ltd was not actually trading was an oversight. As noted, a SOI for 2010/11 has been adopted and Council has now exempted HHLtd under section 7 of the Local Government Act 2002, removing any future need for the Company to prepare SOI's.*

#### 3.2 Transparency, Accountability and Financial Management (TAFM)

The TAFM proposed reform of the Local Government Act 2002 was initiated by the Minister of Local Government in April 2009 with the approval of Cabinet. The focus of the review is to "simplify" the planning, decision-making and accountability requirements of part 6 of the Local Government Act (LGA) 2002.

To date TAFM has had no impact on the District Council.

We will maintain an awareness of the proposed content and progress of the TAFM reforms, in particular focussing on any proposed amendments to the Local Government Act 2002 that impact on disclosures and audit requirements for the 2010/11 year.

### 3.3 Sensitive expenditure

We followed up our findings and recommendations from the 2008/09 audit, regarding the District Council's sensitive expenditure policies. The District Council is still in the process of updating its sensitive expenditure policies. Given the recent increased attention by the media to credit card expenditure, we recommend that the policies are updated as soon as possible, and before the end of the 2011 financial year. We will review the updated policies as part of the 2011 audit.

We also selected a sample of transactions from areas of sensitive expenditure, including Councillor expenses, incurred during the period and reviewed them for compliance with the District Council's practices and accepted good practice in the public sector. We found that sensitive expenditure was appropriate, but some items were not approved in accordance with the District Council's policy, and some items were not appropriately supported and could not be traced to invoice.

The District Council should remind staff of the requirement to obtain one-up approval for credit card expenses and expense claims, and that appropriate supporting documentation should be retained for all expenditure.

#### Management comment

*We are not currently reviewing or updating our Sensitive Spending Controls Policy. We consider that we now have a very sound and workable policy in place, which is appropriate for our organisation. The policy was reviewed and significantly enhanced in April 2009, and training for staff was delivered on it at the time. It includes the use of practical examples on appropriate and inappropriate spending. The policy (which is included in our staff policy handbook), is given to every new employee and personally explained and 'work shopped' with them so they are familiar with it. The CEO regularly brings up case examples for discussion in monthly team leader meetings, so that the policy is a real living document, rather than something that sits on a shelf. We do not have staff credit cards, but do have one organisation credit card held by the Mayor and CEO's personal assistant. This card is used for internet purchases only, and most commonly for paying for air flights. Whereas it is our policy to require GST receipts for all purchases and expense claims, in a very small number of cases, this is not practical, and management approval can be exercised when the circumstances are unreasonable and unfair to insist on GST receipts. Instances of this are very rare and it is not at all our normal practice.*

*To continue to manage our risks, we will introduce new internal audit procedures and these will include auditing expense claims, purchases and the use of the Council's one corporate credit card. The results of these auditing processes will be used as a management tool.*

### 3.4 Audit Committees

During the year the District Council has not had an Audit Committee in place. We understand that the District Council has decided that the Council committee structure will include an Audit Committee.

The District Council is aware of the OAG's best practice guide for Audit Committee. As part of the 2011 audit, we will review the terms of reference of the Audit Committee against the OAG's best practice guide.

#### **Management comment**

*The Council established an Audit and Risk Committee in October 2010, which had its initial meeting on 2 December 2010. At this meeting, the members considered the appropriate terms of reference. The OAG best practice guide was the key resource used to determine the terms of reference. This Committee will meet quarterly with the next meeting timed for 2 March. The members comprise of three Councillors and one external advisory member selected for their audit and risk experience.*

### **3.5 Severance payments**

There were no severance payments made during the year.

### **3.6 Conflicts of interest**

During the course of our usual audit work we remained alert for conflicts of interest. No issues came to our attention.

### **3.7 Funding arrangements and procurement**

We followed up whether the District Council had compared its policies for funding arrangements and procurement against guidance published by the Auditor-General, and whether changes were made as a result of this comparison.

The District Council's procurement policy is dated September 2006. We understand that the District Council is in the process of updating the policy and we have referred Council's staff to the OAG's good practice guides. We would appreciate receiving a copy of the draft policy for comment before it is finalised.

#### **Management comment**

*The draft Procurement Policy will be provided to Audit New Zealand as requested, for comment before a formal review undertaken by the Audit and Risk Committee.*

### **3.8 Accounting for heritage assets**

We reviewed to ensure the District Council had appropriately accounted for its heritage assets.

We understand that the District Council does not have any heritage assets as at 30 June 2010. The Queen Mary Land vested in the District Council subsequent to year end is a heritage asset and will be separately recorded in Council accounting records.

### 3.9 Elected members – remuneration and allowances

We reviewed Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the Local Government Elected Members Determination.

We found that elected members remuneration and allowances were fairly reflected in the annual report.

### 3.10 Treaty settlements and co-management

We were not made aware of any new Treaty of Waitangi settlements or co-management arrangements or developments with existing agreements.

We understand that the District Council has entered into discussions about updating the Memorandum of Understanding with Ngai Tahu and two local Runanga. We will maintain a watching brief on developments.

#### Management comment

*The Council has a Memorandum of Understanding with our two local Runanga and Ngai Tahu which was agreed to in 2004. In 2010, the Council met with the local Runanga and Ngai Tahu on a number of occasions and all parties agree that the current MoU needs to be reviewed. This is a work in progress and there will be further meetings before this is completed.*

### 3.11 Risk management

We ascertained if the District Council has, or is implementing a sound organisational wide approach to risk management.

The District Council currently does not have a formal organisational wide approach to risk management.

Sound risk management processes help to minimise the impact of risks on the organisation. We recommend the District Council considers developing and implementing a formal organisation wide risk management system.

#### Management comment

*The Council has adopted an organisational philosophy which sets out its vision and values. Supporting documentation and visual representation (a 'bull's eye' diagram) has been available since April 2008. The material is widely circulated, displayed and work shopped with staff. One of the 5 fundamental characteristics of the Council's High Performance Organisation framework is Risk Management. Risk Management is discussed in our documentation and 6 actions are identified that we need to carry out to improve our management of risk. The CEO's version of the Vision and Values document is more comprehensive, listing over two pages of actions that need to be carried out. The Vision and Values document identifies 21 'big issues' the Council is facing in the District. The 21 issues were refined from the CEO's version of the document, which*

identified 30 'big issues' – all of which are risks. The CEO focuses on all 5 High Performance Organisation characteristics (including risk management) on an ongoing basis in his weekly Management Team meetings and weekly one on one catch ups with his direct reports and in his monthly Team Leader meetings. Individual Performance and Development Plans for Management Team Members specifically highlight risk management.

The CEO maintains a Risk Register in his office – a folder where he documents risks, with a risk assessment matrix and control actions and gaps identified, for an expanded/adjusted list of 60 plus current risks.

The newly elected Council has established an Audit and Risk Committee, as recommended to it by the CEO and Audit NZ. At its meeting on 2 March 2011, it will receive a comprehensive risk management report, which will formalise this risk management system and allow for periodic reporting.

## **4 IS matters**

We reviewed aspects of the Council's information systems environment. This included a review of the high level IS security as well as Council's general controls and application controls over its key systems.

We have identified the following area for improvement in addition to those raised in the prior year's management report:

### **4.1 Network security**

#### **Recommendation**

Password settings should be reviewed to ensure adequate security parameters are in force to protect the integrity of access to the District Councils computer systems.

Remote access should be secured using an encrypted connection.

#### **Findings**

The current password settings for the network include minimum required length of 6 characters with no complexity. Security could be enhanced by increasing the minimum length required to 8 characters with complexity enabled.

Remote access to the network is via Remote Desktop Protocol (RDP), which is controlled by an active Directory Group. However this is not via an encrypted connection.

Weak security policies may result in unauthorised access to the District Council's data and systems which could facilitate fraud or fraudulent reporting.

#### **Management comment**

Given the number of employees the Council employs who have access to its computer network, we feel that we do have adequate controls in place for those working in a

Council office. We disagree with the recommendation for more complex rules for passwords because we feel that will encourage people to write down passwords and thus this will negate the added security a complex password would bring. Passwords are changed every 90 days, including access to our Deskbank programme, which authorises electronic payments. Remote access to the Council's server is restricted to certain positions based on the benefits of working from a remote location and only authorised through an appropriate level of manager. The IT department is currently investigating implementation of 2-factor authentication for remote access into the network with a view to implementation by the end of June 2011.

## **5 Miscellaneous matters**

### **5.1 Interest register for senior management**

NZ IAS 24 *Related Party Disclosures* requires related party transactions with key management personnel to be disclosed in the notes to the financial statements.

We note that the District Council maintains an interest register for Councillors, but not for senior management.

The maintenance of an interest register for senior management would provide assurance that all potential conflicts of interest and related party transactions are identified, appropriately managed and reflected in the financial statements.

The interest register for both Councillors and senior management need to record not only the interests of the person themselves, but also the interests held by their close family members. This includes partners, children, children of their partners, and any other dependants.

#### **Management comment**

*An interest register for senior management has been completed by the CEO and all members of the management team. This contains information about themselves, their partners and children. This register is held by the CEO. A new register of interests has been developed for elected members, which now includes sections for partners and children. All elected members who have not completed a register of interest to date will be encouraged to complete the new register. However, it is noted that the CEO cannot compel any elected member to do so. The CEO will continue to periodically remind members and now management team, to update their registers.*

### **5.2 Independent review of payroll data entry and masterfile change reports**

When an employee leaves the District Council, their payroll information is retained within the payroll system. The employee's record is set to "finalised" state that prompts when an attempted entry to the employee number is made. However this can be manually overridden, therefore there is the risk that payments can be processed through a previous employees payroll records.

In prior years' management reports we recommended the independent review of the payroll summary report that shows data that is outside generally expected

parameters and masterfile change report that outlines any payroll masterfile changes that have occurred between pay periods.

The review of these reports would provide assurance that payments are made to bona fide employees and changes to employee masterfiles are valid and adequately authorised.

We understand that the payroll summary report is reviewed by the Manager of Financial Services before authorising payment of the payroll. However, there is no evidence of this review. The independent review of the masterfile change report has not been implemented yet.

#### **Management comment**

*The introduction of an internal audit process will include payroll records. This internal audit will be done regularly and evidence of this new control process will be retained and available for management review and the auditor's inspections. This will include the review of the payroll summary report and the masterfile change report.*

### **5.3 HSTPS – The independent review of creditor masterfile changes**

We understand that the creditor system does not currently allow a masterfile change report to be produced; therefore no independent post-input review of creditor masterfile changes is undertaken.

An independent review of changes to creditors masterfiles would reduce the risk of fraud occurring and would provide assurance that only valid and authorised changes are made to supplier details.

We recommend that the District Council investigates whether a masterfile change report can be developed within the system.

If a report can not be developed, we recommend screen shots of changes to the masterfile, together with supporting documentation, are presented to the payment authorisers with the electronic aged trial balance. The authorisers should sign and date the screen shots as evidence of their review.

#### **Management comment**

*The Manager – Financial Services will review the issue with the administration staff at the HSTP and develop a procedure where changes to the creditor information can be reported and independently reviewed by the General Manager of the Thermal Pools.*

### **5.4 Availability of supporting documentation for fixed asset additions**

Our review of property, plant and equipment includes the testing of a sample of additions in the year to supporting documentation. We note that for a number of asset additions, Council staff had difficulty locating the supporting invoices. It is important that all invoices are readily available as supporting evidence of the costs incurred by the District Council.

We recommend that all invoices relating to asset additions are filed separately.

**Management comment**

*The issue is noted. A copy of the invoice of each fixed asset addition will be filed separately with the fixed asset information.*

**6 Status of recommendations made in previous years**

The status of our recommendations made in previous years is included in Appendix 3. While a number of the matters remain in progress or outstanding, we acknowledge management's commitment to addressing the issues raised.

**7 Details of reviews on behalf of the Auditor-General**

We completed the reviews required by the Auditor-General, as set out in our audit arrangements letter, and cleared them with appropriate members of your management team. Appendix 4 sets out the results of the reviews. There are no issues that need to be brought to your attention.

## Appendices

Appendix 1: Unadjusted misstatements

Appendix 2: Findings from our review of non financial information

Appendix 3: Status of recommendations made in prior years

Appendix 3: Details of reviews on behalf of the Auditor-General

## Appendix 1: Unadjusted misstatements

Current year misstatements	Assets	Liabilities	Equity	Income Statement
	Dr (Cr) \$'000	Dr (Cr) \$'000	Dr (Cr) \$'000	Dr (Cr) \$'000
Gains on fair value of investment Other financial assets <i>The movement in fair value of Council's Transwaste investment not accounted for. Amount is not material therefore not adjusted for.</i>	62			(62)
Employee benefit costs Employee benefit liabilities <i>The long service leave provision only provides for actual leave owing and not for potential liability owing. Amount is not material therefore not adjusted for.</i>		(68)		68
<b>Total</b>	<b>62</b>	<b>(68)</b>		<b>6</b>

## Appendix 2: Findings from our review of non financial information

Performance measure	Findings from systems review	Recommendations
<p><b>Water supply</b></p> <p>Major faults to water supplies that affect more than 100 consumers will be implemented</p>	<p>The District Council does not yet have a system in place to identify and report on the duration of leaks, and has not retained evidence to substantiate the nature of these leaks or the numbers of people affected.</p> <p>The service requests for the repairs to water supplies had been disposed of once the details have been entered into NCS.</p> <p>Through review of the report generated from NCS and discussions with Council staff, it was found that some of the data entered was incorrect.</p>	<p>The District Council develops a system that will identify and report the duration of leaks, the nature of the leaks and the number of people affected.</p> <p>The service request forms are retained until after the audit has been completed.</p>

### Appendix 3: Status of recommendations made in prior years

#### Matters in progress

Matter	Recommendation	Outcome and status
<b>Independent review of bank reconciliations</b>		
<p>Bank reconciliations are being prepared on a monthly basis. However, there was no evidence that these bank reconciliations had been independently reviewed.</p>	<p>Institute a formal procedure for the independent review of monthly bank reconciliations. Bank reconciliations should be signed and dated by the reviewer as evidence that the review was completed in a timely manner.</p>	<p>We understand that the reconciliations are reviewed but the review is not evidenced. The signing and dating of the bank reconciliations by the reviewer would provide assurance that the controls are being operated as intended.</p> <p><b>Management comment</b>  <i>A bank reconciliation for each account will be prepared which will be reviewed and signed by the Manager – Financial Services.</i></p>
<b>Review of the creditors aged trial balance</b>		
<p>Before each payment run, line items on the Creditors Aged Trial Balance are reconciled back to invoice. For four out of 24 of these that we reviewed, there was no evidence that this check had been completed.</p>	<p>The independent reviewer signs and dates the creditor aged trial balance as evidence the aged trial balance has been reviewed in a timely manner.</p>	<p>Our sample testing this year did not include this control. We will follow this up as part of the 2011 audit.</p>

<b>HSTPS The log in process for cashiers</b>		
<p>Cashiers will often remain logged on for the duration of their shift. This means that if a cashier is on a break another cashier would operate their till using the first cashiers log in.</p>	<p>Cashiers to log off when they leave a till unattended.</p>	<p>As of the start of June 2010, all the Cashiers are required to log off during their lunch breaks. However they are not required to log off during their morning and afternoon tea breaks. Cashiers should log off each time they leave their till unattended. <b>Management comment</b> <i>This matter has been noted and procedures put in place to ensure all cashiers now log off during their breaks (including morning and afternoon teas).</i></p>
<b>The post input review of journals</b>		
<p>There is no independent post input review of journals.</p>	<p>Consider implementing an independent post input review of journal entries. The independent reviewer should sign and date the journal entry as evidence of their review.</p>	<p>We understand that a post input review is undertaken by the Manager of Financial Services. However, there is no evidence of this review. The review should be evidenced by signing and dating the journal spreadsheet. <b>Management comment</b> <i>The form used for Journals will be amended to provide space for the Manager – Financial Services to sign as evidence of a post input review.</i></p>

<p><b>Lack of end user computer policies and procedures</b></p>	<p>The District Council uses various Access databases in multiple areas, for core Council processes. However, it has not developed any policy for identification, development, maintenance and testing of those databases and other end user computing (EUC) tools, such as complex spreadsheet models.</p>	<p>Develop policies, procedures and guidelines related to end user computing tools (spreadsheets and databases that are developed by end users). These policies, procedures and guidelines should be backed up by user awareness training and the process of identification, review and certification of existing end user computing tools.</p>	<p>The Access databases in use in multiple areas of Council are being transferred over into the NCS system.</p> <p>The IT Manager has produced a "Policies for users of Information &amp; Technology systems". This remains in draft form and does not include a statement regarding end-user computing.</p> <p>The draft policies need updating to include a policy that core Council data be sourced and recorded in core Council systems. Any exceptions should be approved by the IT manager, and conform to agreed standards for End User Computing solutions. The policies should then be finalised and communicated to staff, with training provided as appropriate.</p> <p><b>Management comment</b></p> <p>We currently do have policies in place regarding the use of technology. Three new policies are in draft form to cover the rules of use for Information &amp; Technology Systems, Recordkeeping, and Information Management. These policies are being reviewed and an inclusion will be added regarding core Council data being sourced and recorded in core Council systems, as recommended in the Auditors' report. Once the policies have been signed off, will be familiarised with them through awareness sessions.</p>
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<p><b>Change management procedures</b></p>	
<p>There were no formalised change management procedures in place and no testing and sign off for NCS system changes before they went live.</p>	<p>Establish a test system for all NCS system changes so these can be tested and signed off before going live.</p>
<p>There is now a test environment for NCS. The Request for Change form is now used for large changes, but other changes are not recorded and change control process has not yet been formally documented by IT. A standard process for change control should be documented and followed that includes the use of a standard template to document aspects such as:</p> <ul style="list-style-type: none"> <li>• Type of change, either Minor, Medium or Major</li> <li>• Description of the change,</li> <li>• Test Plan,</li> <li>• Back-out plan</li> </ul> <p><b>Management comment</b>  <i>All minor, medium or major changes are now recorded in our Helpdesk software. Reports can be generated listing all changes done over a specific time period.</i></p>	

**Outstanding matters**

Matter	Recommendation	Outcome and status
<b>Review of changes to creditor masterfiles</b>		
<p>The creditors masterfile contains the basic data on Council's suppliers, such as a suppliers address or bank account number. We noted that when changes were entered into the creditors system, these changes were not independently reviewed. We also noted that old suppliers were retained in the system indefinitely.</p>	<p>The District Council produce a report that details changes to creditor masterfiles and that this report be independently reviewed.</p>	<p>There has been no change since last year.  <b>Management comment</b>                      We are working with NCS to provide a report that produces all creditor masterfile changes. This will be reviewed on a monthly basis by the Manager – Financial Services and signed as evidence of the review.</p>
<b>The independent review of payroll masterfile changes for HSTPS</b>		
<p>We understand that a payroll audit report can be produced. The payroll audit report lists changes to payroll masterfiles. The review of the payroll audit report ensures that changes to employee masterfiles are adequately authorised and helps to ensure that payments are made to bona fide employees.</p>	<p>A payroll audit report is produced and that this report should be independently reviewed. The payroll audit report should be signed and dated as evidence of the review.</p>	<p>There has been no change since last year.  <b>Management comment</b>                      The issue is noted and will be discussed with the administration staff and the General Manager of the HSTP.</p>

Matter	Recommendation	Outcome and status
<p><b>Capital work in progress</b></p> <p>In its financial statements, the District Council included capital work in progress in the various categories of property, plant and equipment rather than disclosing it separately. It is good practice to disclose capital work in progress separately.</p>	<p>For capital work in progress to be disclosed separately and where applicable, for capital work in progress to be revalued when a class of assets is revalued.</p>	<p>Roading capital work in progress was included in the roading valuation as at 30 June 2010. However, capital work in progress is still included in the various categories of property, plant and equipment.</p> <p><b>Management comment</b></p> <p>The issue is noted and further work will be undertaken to separately disclose the level of capital work in progress for plant, property and equipment.</p>
<p><b>Risk Framework and Business Continuity</b></p> <p>The District Council did not have a risk framework in place to monitor and report on risks, including IS risks, and there has not been any progress on completing and testing an organisational Business Continuity Plan.</p>	<p>Establish a risk assessment framework that is used periodically to assess information risk relative to achieving Council's objectives.</p> <p>Develop and maintain an up to date and tested Business Continuity and Disaster Recovery Plan.</p>	<p>Risk framework still not in place, commented on in section 3.1.1.</p> <p>Business Continuity and Disaster Recovery Plan still to be developed</p> <p><b>Management comment</b></p> <p>A formal Risk Management System will be adopted by the Council's Audit and Risk Committee, as stated earlier under 3.1.1. The Business Continuity and Disaster Recovery Plan will be developed as a result of the work prioritised by the Risk Management Framework and as resourcing allows.</p>

**Cleared matters**

Matter	Recommendation	Outcome and status
<b>The Local Government (Rating) Act 2002</b>		
<p>The District Council's rates assessment notice for the year 1 July 2009 to 30 June 2010 did not clearly identify the activities or groups of activities that were to be funded from each rate.</p>	<p>The District Council amends its Rates Assessment Notice to clearly identify the activities or groups of activities that will be funded from each rate to comply with section 45 (g) of the Local Government (Rating) Act 2002.</p>	<p>Rates assessment notice now identifies the activities funded from each rate</p>
<b>HSTPS Authorisation of PC banking payments</b>		
<p>In order for a PC Banking run to occur it is necessary for two approved employees to electronically authorise the banking run. However, only two employees are approved PC Banking signatories. This means that HSTPS would be unable to process a PC Banking run in the absence of just one approved signatory.</p>	<p>HSTPS creates one or more backup authorisers for PC Banking runs.</p>	<p>A back up authoriser has been set up.</p>
<b>HSTPS Review of cash refunds</b>		
<p>When a cash refund occurs, cashiers enter the reason for the refund into a cash refund book. The Cashier Supervisor reviews the cash refund book but does not record any evidence of this review.</p>	<p>Require the Cashier Supervisor to sign the cash refund book as evidence that cash refunds that have occurred during a shift were reviewed.</p>	<p>The cash refunds are reviewed by the shift supervisor as part of the cashier reconciliation process. The shift supervisor signs the cash reconciliation as evidence of the review.</p>
<b>HSTPS Formal delegations listing</b>		

<b>Matter</b>	<b>Recommendation</b>	<b>Outcome and status</b>
<p>HSTPS does not have a formal delegations listing in place. Instead, it relies on an informal delegations listing that restricts the authorisation of expenditure to Line Managers.</p>	<p>HSTPS implements formal delegations.</p>	<p>A formal delegations listings has been put in place.</p>
<p><b>HSTPS bank reconciliations</b></p>		
<p>Bank Reconciliations were being prepared on a monthly basis. However, these were not being independently reviewed.</p>	<p>Institute a procedure for the independent review of monthly bank reconciliations. Bank reconciliations should be signed and dated as evidence the bank reconciliation has been independently reviewed.</p>	<p>The monthly bank reconciliations are now independently reviewed, and the review evidenced.</p>
<p><b>The availability of minutes</b></p>		
<p>Council held a publicly excluded session as part of its meeting on 29 January 2009. Council officers were unable to locate the minutes for this session.</p>	<p>Minutes be accurately recorded and filed for all Council meetings.</p>	<p>All minutes were available.</p>
<p><b>The coding of fixed asset additions</b></p>		
<p>We noted instances where the coding of invoices to the general ledger was inaccurate or inconsistent.</p>	<p>Provide training to employees on how to code expenditure, especially in using appropriate expenditure and fixed asset codes. Consider providing a coding 'cheat sheet' to employees.</p>	<p>No instances of miscoding were identified in the sample of transactions tested this year.</p>
<p><b>Lack of end user computing policies and procedures</b></p>		
<p>During our review of NCS user IDs we noted that generic accounts have been setup.</p>	<p>Where possible generic accounts should no longer be used and unique logon accounts allocated to the users of the generic accounts.</p>	<p>Management are aware of and know why generic accounts exist and accept the need and risk of these accounts.</p>

Matter	Recommendation	Outcome and status
<p><b>Periodic review of users and access rights</b></p>	<p>Implement a formal periodic review (at least annually) of user IDs and access rights. Special privileged access rights should be reviewed and confirmed at more frequent intervals.</p> <p>Strengthen the overall user account management security practices by combining regular reviews with other security practices like formal approval process for setting up new users and timely removal of user IDs upon employment termination.</p>	<p>Annual review of users and access rights is now in place.</p>
<p><b>Formalise the leaving process and the removal of users</b></p>	<p>Develop a checklist for managers to advise IS what is to be done with the staff members data when they leave.</p>	<p>Accounts are disabled when inactive for three months, and are closed when advised by managers.</p>
<p><b>Form for approving contractor access</b></p>	<p>Develop an approval form for computer access for contractors, and for remote access for staff and contractors.</p>	<p>New user form is utilised.</p>
<p>There were no special procedures for allowing contractors access, and for approving remote access to IT systems.</p>	<p>Develop an approval form for computer access for contractors, and for remote access for staff and contractors.</p>	<p>New user form is utilised.</p>

<b>Matter</b>	<b>Recommendation</b>	<b>Outcome and status</b>
<p><b>Valuations</b></p> <p>In our 2006 management report we expressed some concern that there continued to be large changes arising from the valuation process. Over the last few years, many of these changes resulted from changes in methodology or improvements in the base data used. We recommended that Council consider moving to a more thorough periodic revaluation process.</p>	<p>We strongly encourage Council to employ more effective processes over its roading asset records and valuations to provide assurance that the information used is accurate and reliable.</p>	<p>The District Council revalued its roading assets as at 30 June 2010. Continuous improvements to the asset data are being made including updating construction dates following field assessments, and where default construction dates are required, these take account of type of material used and other conditions, rather than applying one default date to all assets.</p>
<p><b>Impairment indicators</b></p> <p>NZ IAS 36, <i>Impairment of Assets</i>, requires Council to “assess at each reporting date whether there is any indication that an asset may be impaired.” We were not aware of any specific review of assets for indications of impairment.</p>	<p>Management formally review assets for any indicators of impairment and document their conclusions.</p>	<p>A review of asset impairment was undertaken and documented for the 2010 year end.</p>

Matter	Recommendation	Outcome and status
<p><b>The Local Authorities (Members' Interests) Act 1968</b></p> <p>The District Council does not keep a record of members' interests.</p>	<p>Consider establishing a voluntary Interests Register to record the business interests of councillors.</p>	<p>The District Council maintains an interest register for Councillors. The onus is on the Councillors to update the register as needed.</p> <p>We recommend that the Councillors interest register is updated on an annual basis by requesting Councillors to complete an annual interest declaration form.</p> <p><b>Management comment</b></p> <p><i>We have established a record of member's interests. Elected members are encouraged to declare their interests in writing and verbally in meetings. Regular requests are made to Councillors (and they are reminded that it is good practice) to complete an interest declaration form. This matter is raised often – formally and informally. The most recent request made to Councillors to update the interest register was after the October 2010 election. Half of the members have completed it and the remaining Councillors will be reminded again in person. In addition to requesting Councillors to declare their interests in writing, the topic 'conflicts of interest' is an agenda item on every Council and Committee agenda. We attended Conflict of Interest training sessions have been run by Council's lawyers, for both staff and elected members.</i></p>

<b>Matter</b>	<b>Recommendation</b>	<b>Outcome and status</b>
		<p>The CEO actively encourages Councillors to declare their interests at every opportunity and has been consistent with this message throughout his 3 plus years with the Hurunui District Council. We have scheduled for Councillors to be asked to update the interest register again at the end of each calendar year. Short of compelling Councillors to do this, we feel we have placed a good level of effort in this area.</p>

## Appendix 4: Details of reviews on behalf of the Auditor-General

Issue	Status/findings
Annual Report Adoption and Public Release Dates	<p>We have been asked to note the dates that the Council adopts its annual report, and makes the full and summary annual reports available to the public. This information has been forwarded to the Office of the Auditor-General.</p>
Local Authority Exemptions for Council Controlled Organisations (CCOs)	<p>We have been asked to advise the OAG on Council's use of Section 7 of the Local Government Act 2002. Under section 7 of the LGA 2002, a local authority may exempt a "small" CCO from the accountability regime that applies to CCOs under that Act.</p> <p>We found that in May 2010 the District Council exempted Hurunui Holdings Limited under section 7 of the Local Government Act 2002 for the 2011, 2012 and 2013 financial years.</p>
Local Authorities emissions and measurement and reduction	<p>We have been asked by the OAG to gather information about the activities of local authorities in the area of emissions measurement and reduction with a view to obtaining baseline information for 2009-10.</p> <p>We found that Council has not as yet actively considered emissions measurement and reduction, therefore the Council has no formal processes in place at present.</p>