



Notice is given that an ordinary meeting of the Audit Subcommittee will be held on:

**Date:** Thursday 7 March 2013  
**Time:** conclusion of Corporate Services or 1.30 pm  
**Meeting Room:** Tasman Council Chamber  
**Venue:** 189 Queen Street  
Richmond

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## Audit Subcommittee

### AGENDA

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#### MEMBERSHIP

<b>Chairperson</b>	Cr G A Glover
<b>Members</b>	Cr J L Inglis
	Cr C M Maling
	Cr P F Sangster
	Cr T E Norriss
	Cr T B King

(Quorum 2 members)

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## **AGENDA**

**1 OPENING, WELCOME**

**2 APOLOGIES AND LEAVE OF ABSENCE**

**Recommendation**

That apologies be accepted.

**3 DECLARATIONS OF INTEREST**

**4 CONFIRMATION OF MINUTES**

That the minutes of the Audit Subcommittee meeting held on Thursday, 8 November 2012, be confirmed as a true and correct record of the meeting.

**5 REPORTS OF COMMITTEE**

Nil

**6 PRESENTATIONS**

Nil

**7 REPORTS**

- 7.1 Action Sheet from 8 November 2012 Meeting..... 5
- 7.2 Audit of the Tasman District Council Debenture Trust Deed ..... 9
- 7.3 Audit Management Report: June 2012..... 13
- 7.4 Corporate Services Manager's Report: Status of Audit Recommendations ..... 35



## 7 REPORTS

### 7.1 ACTION SHEET FROM 8 NOVEMBER 2012 MEETING

Information Only - No Decision Required

**Report To:** Audit Subcommittee  
**Meeting Date:** 7 March 2013  
**Report Author:** Murray Staite, Corporate Services Manager  
**Report Number:** RFN13-03-17  
**File Reference:** C761

#### 1 Summary

1.1 The Action Items are attached from the 8 November 2012 Audit Subcommittee.

#### 2 Draft Resolution

**That the Audit Subcommittee receives the Action Sheet from 8 November 2012 Meeting RFN13-03-17.**

#### 3 Appendices

1. Action Sheet

7



**Audit Subcommittee – Action Sheet**

Item	Minute/Action	Minute or CSR or Email request	Accountable Officer	Status
<b>Meeting Date: 8 November 2012</b>				
	Depreciation Funding	Report from 1998 to be circulated to Subcommittee members.		Council staff are still looking for the 1998 report which will be circulated to members once it is found.





## 7.2 AUDIT OF THE TASMAN DISTRICT COUNCIL DEBENTURE TRUST DEED

Information Only - No Decision Required

<b>Report To:</b>	Audit Subcommittee
<b>Meeting Date:</b>	7 March 2013
<b>Report Author:</b>	Murray Staite, Corporate Services Manager
<b>Report Number:</b>	RFN13-03-15
<b>File Reference:</b>	C761

Item 7.2

### 1 Summary

- 1.1 This report provides Subcommittee members with a copy of the annual letter from Council's Auditors to the Trustees of Council's Debenture Trust Deed.
- 1.2 The Auditors in their letter to the Trustees note that there are no matters for concern.

### 2 Draft Resolution

**That the Audit Subcommittee receives the letter to the Trustees of Council's Debenture Trust Deed RFN13-03-15.**

**3 Purpose of the Report**

- 3.1 To receive a copy of the letter sent to the Trustees of Council's Debenture Trust Deed.

**4 Background and Discussion**

- 4.1 Council, in common with other local authorities and commercial entities, uses a debenture trust deed to secure its debt.
- 4.2 Council is required by the trustees to have an annual audit of its debenture trust deed processes.
- 4.3 Attached to the report is the letter provided to the trustees as a result of that audit. The auditors note that no issues of concern were found.

**5 Appendices**

1. Audit of Tasman District Council Debenture Trust Deed 11

9 November 2012

The Trustees  
Foundation Corporate Trust  
PO Box 112  
Christchurch 8140

cc Lindsay McKenzie  
Chief Executive  
Tasman District Council  
Private Bag 4  
Richmond

Attention: Katherine Hepburn

Dear Katherine

**Audit of Tasman District Council Debenture Trust Deed**

With reference to Tasman District Council's (the Council's) Debenture Trust Deed dated 7 July 2010.

As auditor of the abovementioned Deed, we are in a position to state that:

- In performing our duties, as auditors, we have not become aware of any matters which, in our opinion, are relevant to the exercise or performance of the powers or duties conferred or imposed on the Trustee;
- During our audit we have not discovered any matter that, in our opinion, calls for further investigation by the Trustee in the interests of the stockholder;
- We have perused the Reporting Certificate given on behalf of the Council pursuant to Clause 12.2.4 and, as far as matters which we have observed in the performance of our duties are concerned, the statements made in such certificates are correct;

- The Council's agents have duly represented that they have maintained the Register in accordance with the provision of the Deed;
- As at 30 June 2012 there is:

Debenture stock of	\$nil
Security stock of \$212,000,000	
Bearer stock of	\$nil
Security stock (LGFA Stock) as at 30 June 2012 <sup>1</sup> \$851,000,000	
- From the audit testing conducted we are satisfied that all principal money due and payable on the stock has been paid, and that all interest due and payable on the stock has been paid.

Yours sincerely



Scott Tobin  
Director

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<sup>1</sup> Included in Security stock (LGFA Stock) is \$16,000,000 of Security Stock held in the name of Tasman District Council

### 7.3 AUDIT MANAGEMENT REPORT: JUNE 2012

Information Only - No Decision Required

<b>Report To:</b>	Audit Subcommittee
<b>Meeting Date:</b>	7 March 2013
<b>Report Author:</b>	Murray Staite, Corporate Services Manager
<b>Report Number:</b>	RFN13-03-16
<b>File Reference:</b>	C761

#### 1 Summary

- 1.1 This report considers the contents of the 2012 audit management report and notes that an unmodified audit opinion was received for the 2012 year.

#### 2 Draft Resolution

**That the Audit Subcommittee receives the Audit Management Report: June 2012 RFN13-03-16**

**3 Purpose of the Report**

- 3.1 To consider the contents of the Audit Management Report for the year ended June 2012.

**4 Background and Discussion**

- 4.1 The 2012 annual audit of the council by Audit New Zealand was completed within statutory time frames with the council receiving an unmodified opinion.
- 4.2 At the end of the audit process a audit management report is provided to report on management issues raised during the audit process. That management report is attached as Appendix 1
- 4.3 The management report is broken down into two key sections with Section A focusing on the audit opinion risk and issues with Section B focussing on miscellaneous other matters.
- 4.4 The management report has been reviewed by Council management with management comment included within the report

**5 Appendices**

1. Audit Management Report. June 2012 15

Report to the Council on the audit of  
**Tasman District Council**  
for the year ended 30 June 2012

# Management report

**Audit New Zealand has carried out this audit on behalf of the 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.

We carry out our audit in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.

**Statement of auditor independence**

We confirm that, for the audit of the Tasman District Council's financial statements for the year ended 30 June 2012 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 and carrying out the audit of the long term plan, we have no relationship with, or interests in, the Tasman 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 Tasman 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 Tasman District Council during or since the end of the financial year.



Scott Tobin  
Audit Director  
10 January 2013



## Report to the Council

We have completed the audit for the year ended 30 June 2012. This report sets out our findings from the audit and draws attention to areas where Tasman District Council (TDC) is doing well or where we have made recommendations for improvement.

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## Section A: Audit opinion and risks and issues

Based on our planning work and discussions we had at the beginning of the audit process, we identified some key business risks that the Council faces. These were outlined in our audit arrangements letter. Our findings on these issues are contained in this section of the report.

During the course of the audit, we also encountered other issues that we considered in reaching our audit opinion. These issues are also discussed in this section of the report.

### 1 Our audit opinion

#### 1.1 Audit opinion

We issued an unmodified audit opinion on 18 October 2012. This means that we were satisfied that the financial statements and statement of objectives and service performance fairly reflected Council's activity for the year and its financial position at the end of the year.

The financial statements are free from material misstatements, including omissions.

#### 1.2 2012 financial summary

TDC reported an operating surplus of \$1.9 million for the year (compared with a budgeted surplus of \$3.7 million) and other comprehensive income of \$42.0 million resulting in total comprehensive income of \$43.9 million for the year. The operating surplus was down on the prior year and budget partly due to non-cash items such as losses of \$5.1 million on interest rate swaps recognised in 2012.

Other comprehensive income items in 2012 included the gains from revaluation of Council's infrastructure assets (wastewater, stormwater etc) of \$45.0 million. This was offset by the impairment of assets damaged by the December 2011 flood events of \$2.3 million.

### 2 Risks and issues

#### 2.1 Rainfall and flooding events

The rainfall and flooding events of December 2011, following a similar event in the previous year, has impacted on Council both operationally and financially. The severity of the 2011 rainfall resulted in a Civil Defence Emergency being declared as flooding and slips damaged roads and services in parts of the District.

The estimated cost to Council of the 2011 event is approximately \$10.1 million. Some of these costs will be reimbursed by the Ministry of Civil Defence and Emergency Management (MCDEM) or claimable through insurance, while Council is also expecting to fund the shortfall from existing disaster funds (including the use of the special dividend from Port Nelson) or from raising loans.

Below we comment on the more significant impacts of these events from an accounting and auditing perspective.

**Management comment**

*Your comments regarding timeframes are noted. Finance staff will work to ensure that should future events occur appropriate analysis is completed early on in the preparation of the annual report.*

**2.1.2 Accounting for damage to property, plant and equipment**

The 2010 flooding mainly impacted the Aorere river area and resulted in bridges being washed away and loss of rockwork within the river. The 2011 event resulted in damage to the roading network and infrastructure assets such as the water and stormwater networks.

Accounting for the damage to Council's assets requires an assessment of the affected assets and whether these can be repaired or need to be replaced. If assets are significantly damaged but can be repaired, the accounting treatment is to impair these with this expense being recognised in the statement of comprehensive income and reducing the applicable revaluation reserve. If an asset is so damaged that it needs to be replaced then this is expensed and recognised in the operating surplus/deficit for the year.

The exercise to analyse the damaged assets and determine the accounting treatment for these assets takes time and judgement. This was performed late in the preparation of the 2012 annual report and created considerable work for finance and engineering staff as well as the need to audit this information. This also put pressure on Council being able to meet its annual report adoption date. We encourage Council to undertake this work early when accounting for the costs incurred in 2012/13.

Overall, from our review of Council's accounting treatment of the events on Council's assets we consider these to be fairly stated. The assessment of de-recognition compared with impairment was reasonable.

**2.1.3 Insurance and cost recovery**

Council can claim for reimbursement of a share of the costs incurred relating to the 2010 and 2011 events. Claims can be made on MCDEM, New Zealand Transport Agency and insurers depending on the nature of the costs to be covered by the counterparty. For the Aorere event, landowners are also contributing towards the cost of repairs.

In the 2012 year, Council received funding from MCDEM relating to the 2010 flood and also accrued for a subsequent claim (approx \$1.3 million) that has not yet been received. Claims to MCDEM for the 2011 event are still being prepared, however as these had not sufficiently advanced (or been accepted by MCDEM) by 30 June 2012, Council could not recognise these in the 2012 financial statements. A contingent asset has been disclosed and these insurance claims are expected to be submitted and the proceeds received in 2012/13.

We reviewed the claim made to date and the correspondence with the Ministry. This claim should give Council a good basis for subsequent claims of the nature of costs that are claimable and likely to be approved by the Ministry.

**2.1.4 Future issues**

The rainfall events will continue to have an impact on Council in 2012/13 and potentially beyond, as the costs to repair the damaged road will largely be incurred in the 2012/13 financial year. Some of the future issues we have identified include:

- Council will need to ensure the appropriate classification of work that is of a capital nature compared with maintenance work. This should be the same treatment as for existing assets, i.e. if the expenditure results in a new asset this should be capitalised, if not then it should be expensed.
- Insurance claims will be prepared and submitted for the 2011 event. MCDEM set outs rules for the type of costs and the level of reimbursement that can be claimed for. Council will need to apply these rules to the costs incurred to ensure that what is being claimed for meets the criteria for reimbursement. If not all claims have been received by balance date 2013, Council will need to apply the 'virtual certainty' test before recognising any insurance claims not received. The threshold to meet this criteria include, approval of the claim, or approval of similar costs within earlier claims.

We will review the accounting treatment of costs relating to the repair/reconstruction of the damaged assets and the status of the various insurance/reimbursement claims as part of the 2013 audit.

**Management comment**

*Your comments are noted.*

**2.2 Rates validating legislation**

Council has disclosed within the Annual Report a number of irregularities with Council's rates setting process for the years 2003/04 to 2008/09. These irregularities raised concerns about the validity of the rates set as part of the annual plan process for those years. To address this, Council has drafted legislation to parliament that seeks to validate Council's process and the rates set and collected during this period.

The concerns that have been raised over Council's processes were largely procedural rather than the risk of an illegal rate. In one of the years a map showing a rating area could not be located. For all years in question Council either adopted the rates before adopting the relevant plan (i.e. the order in which the rates and plan were adopted was not in the correct order), or adopted the Long Term Plan (LTP)/Annual Plan only and did not resolve to set the rates. However the LTP/Annual Plan had all the information in it correctly.

Council has been open with the public on this issue and there does not appear to be any issues noted with collectability. Council has disclosed the situation and the latest position with the validating legislation within the annual report, with this expected before Parliament by the end of the year.

**Management comment**

*Your comments are noted. Council staff will advise when the validating legislation process is completed*

**2.3 Property, plant and equipment**

Property, Plant and Equipment (PPE) is the most significant item on Council's balance sheet (approx \$1,176 million). The balance is impacted by a number of movements in any particular year such as additions, disposals, depreciation, impairment and revaluations. Below we comment on several PPE issues from our audit.

**2.3.1 Revaluation**

Council revalued its utilities assets (water, wastewater and stormwater) as well as its rivers and ports/wharves assets as at 30 June 2012. The impact of the revaluations resulted in the following movements:

- increase in the value of stormwater assets of \$16.8 million;
- increase in the value wastewater assets of \$22.1 million (including the movement in the revaluation of the joint venture's wastewater assets);
- increase in the value water supply assets of \$3.2 million;
- increase in the value of river assets of \$1.8 million;
- increase in the value ports and wharves of \$1.5 million; and
- a decrease in the value of refuse assets of \$1.1 million.

We reviewed the reports, the assumptions and the unit rates within the valuation and confirmed that the valuations had been performed in accordance with relevant standards and had been accounted for correctly within the financial statements. We also confirmed that the valuations had appropriately adjusted for the impairment recognised on assets that were damaged as a result of the flood events.

We reviewed Council's assessment of the carrying values of classes of assets that were not revalued in 2012, such as roading. The movements were not significant and the carrying values have been assessed as reasonable.

**2.3.2 Capitalisation of costs**

During our review of PPE, we noted that some investigation, consultation, and design costs were capitalised in relation to various projects such as the Motueka and Takaka wastewater treatment plant upgrade projects. The costs are incurred as part of professional services contracts, however not all of these would meet the criteria under relevant accounting standards and should therefore be expensed. The relevant standard that provides guidance in accounting for PPE is NZ IAS 16 – *Property, Plant and Equipment*.

We also found similar issues during the 2011 audit. Whilst the amounts have not been material in either year the draft financial statements were corrected for the misstatement.

We recommend that costs of this nature relating to capital projects be reviewed closely to ensure that these are appropriate to be capitalised. Guidance from the relevant accounting standard (NZ IAS-16) should be used to confirm the appropriate treatment of these costs.

**Management comment**

*We have agreed that this process will be reviewed including reviewing how budgets are set. This review of budgets will involve seeking a more detailed understanding of the makeup of the budgeted capital spend.*

**2.4 Doubtful debts review**

From our review of Council's debtors and receivables, it is noted that the aged debtors continues to increase. As at 30 June 2012, the debtors 'over 90 days' balance was \$4.8 million (net of impairment). The corresponding balance in 2011 was \$3.7 million. These are 'other receivables' and does not include any rates debtors.

Some of these individual debts are considerably aged and potentially aren't going to be collected either in full or partially. While these debts have been considered for impairment (and certain debts have been included in the provision), the balance of these continues to increase.

We recommend that management review these aged debtors to determine whether these should be written off. If they are deemed to still be collectable, a review of the existing debt collection procedures may be required to determine whether it is economical to pursue the debt.

**Management comment**

*Tighter procedures are now in place when setting up debtor accounts, i.e. taking personal guarantees. Council is also now going to be charging interest on outstanding Development Contribution Accounts. It is agreed that there are some aged debtors which are proving difficult to collect, however with respect to aged Development Contributions, it is expected that the payment will eventually be collected. Other accounts are continually reviewed for collectability.*

**2.5 Rates reconciliation**

When reviewing rates revenue it was found that Council do not perform a reconciliation of rates revenue at the time rates are set. Generally, the rates set at the start of the financial year should agree to the rates statement at the end of the year. From our review of the rates as per the rates statement compared to the Annual Plan rates and factors per the rating database, we identified small variances that could not be explained. While these variances are not material from a financial statements perspective, any variances should be minimal and reflect changes to the

roll between the timing of the Annual Plan and the adoption of the final rates for the year.

We are aware that Council retains a file that details the capital values/factors that the rates are set on at the point of the Annual Plan (as done in March/April each year), however, there is no reconciliation retained showing the actual capital values/factors used for the actual rates set from 1 July of the relevant year.

We recommend a file is retained of the capital values/factors that the rates are set on. This is useful for both year-end annual report preparation and audit purposes, but also to respond to any ratepayer enquiry.

#### **Management comment**

*Staff complete a rates reconciliation for the General and Targeted rates prior to Council setting the rates. This is a fundamental step in the Annual/Long Term Planning process. As this exercise is carried out before final reports are taken to Council for adoption, it is completed around a month before the end of the year. Full copies are retained as part of our planning records. As would be expected there is always some movement between the actual rates strike, and the reconciliation.*

*A detailed reconciliation between the rates strike and the actual rates received will in future years be provided to you as part of the annual report.*

## **2.6 Looking forward**

Below we comment on several future focused issues.

### **2.6.1 Council's financial strategy**

Following our audit of Council's Long Term Plan, we raised in the management report our observations of Council's financial strategy. We concluded that the strategy was overall prudent, however it did carry significantly more risks than the strategies of most other councils due to the high and increasing debt levels.

This arises from Council's approach to funding its operations in that it elects to borrow for all of its capital expenditure, irrespective of whether it is for renewals or for a new project, and does not consider the funding of depreciation at an income statement level when determining rates levels.

We will maintain a watching brief on any changes to Council's financial strategy through the development of future annual and long term plans.

### **2.6.2 Earthquake prone buildings**

Many organisations are currently undertaking detailed assessments of their building portfolios to determine the level of compliance with the current building code. In a number of cases, buildings that do not meet a certain standard have been temporarily closed or undergone emergency strengthening work to bring these buildings up to the minimum standard.

Government is soon to release an updated earthquake building code.

We will continue to liaise with management over Council's assessments of its buildings and community housing stock and any decisions relating to non-compliant buildings. From an accounting perspective, some buildings significantly below code will need to be considered for impairment as their carrying value may exceed the fair value of the building.

### 3 Sector-wide areas of audit focus

We completed reviews on our areas of interest across all local authorities. These were outlined in our audit arrangements letter dated 14 June 2012. Our comments on the issues not already addressed elsewhere are as follows:

#### 3.1 Council's governance role in completion of Statements of Intent (SOIs) for Council Controlled Organisation (CCO)

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

Council, through the Joint Shareholders Committee, provides oversight of the entities that Council has an associate interest in. This involves consideration and comment of the respective Statements of Intent as well as monitoring the performance of these entities.

We note that in respect of Tasman Bays Heritage Trust (TBHT), there is continuing dialogue between Council and TBHT relating to the loans advanced to TBHT that fell due as at 30 June 2012. Council provided TBHT with a letter of support stating that it did not intend to call up the loans. This assisted TBHT to address any issue surrounding the going concern assumption as at 30 June 2012. TBHT and Council are continuing to negotiate a repayment plan for these loans in the best interest of both parties.

We will continue to monitor the situation with these loans and the implications of any agreement between Council and TBHT on Council's financial statements. For example whether any interest will be charged on the loans and whether the loans should be carried at fair value or discounted within Council's financial statements.

#### Management comment

*An agreed repayment plan has been reached with TBHT and the joint shareholders committee of both Nelson and Tasman Councils. This repayment plan will require formal council approval at the first meeting of 2013*

#### 3.2 Risk management

We discussed with management the status of Council's development of an organisational wide approach to risk management. The process of setting up a risk register and system for monitoring and reporting risks has been in progress for a number of years. This was advanced during the 2011/12 year as part of the development of Asset Management Plans (AMPs) in preparing Council's Long Term Plan.

As the development of the risk register has recently been completed, the next phase of a risk management framework is developing monitoring and reporting processes



within the organisation and to the governing body. We will review the risk register and associated processes and provide any recommendations we have as part of our interim audit in 2013.

**Management comment**

*Council staff have reactivated the Risk project now that the Long Term Plan has been finalised. A risk policy is being prepared for approval by Council. We will also be developing a process for monitoring and reporting on Council's corporate risks.*

**3.3 Funding arrangements and procurement**

We followed up whether Council had compared its policies and procedures for funding arrangements and procurement against guidance provided in reports published by the Auditor-General.

We noted that Council is still in the process of developing a formalised procurement strategy and contract management system to ensure that value-for-money and cost efficiencies within procurement are maximised. This has been raised in previous years' management reports with limited progress made.

**Management comment**

*This work is ongoing. Separate departments of Council have individual procurement policies but these need to be brought together into one overall policy*

*The recent decision to bring some engineering services inhouse will require some changes to procurement processes and policies. It is expected that this work will be completed by June 2014.*

**3.4 Audit of service performance**

We audited the reported service performance information included within the Annual Report.

We focused on:

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

When we performed the audit of Council's 2009-19 LTCCP we concluded that the performance framework provided an appropriate basis for meaningfully assessing Council's actual performance. We have updated our assessment to take into account any changes in Council's business and activity since the LTCCP was adopted. We are

satisfied that Council's performance framework continues to provide an appropriate basis on which to assess Council's performance.

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

### 3.5 Sensitive expenditure

We selected a sample of transactions from areas of sensitive expenditure incurred during the period and reviewed them for compliance with Council's expenditure policies and accepted good practice in the public sector.

No issues were noted with the nature of the expenditure incurred and generally these were approved in accordance with Council's policies. We did note the following from our review of credit cards and when comparing Council's sensitive expenditure policies with those guidelines provided by the OAG:

- We identified an instance where the Mayor's credit card was approved by the CEO. While this is within Council's current policy, it is not considered to be best practice and we recommend this should be approved by the Deputy Mayor or the Chair of a relevant committee (e.g. Audit Committee).
- Council's travel policy lacked guidance on taking annual leave, staying away over weekends, stopovers and travelling with spouses.
- There is no policy wording around specific amounts of meal allowances, classes of flights and types of accommodation allowed to ensure they are reasonable.
- The policy should also be clear that the policies adopted apply to both Councillors and staff. Also any approval of Councillors sensitive expenditure must be at the Council level and not by management.

#### Management comment

*Your comments are noted. As a result of your suggestion Council has changed the authorisation process to allow for the Chair of Corporate Services to countersign the Mayor's credit card.*

*The other changes you have suggested will be incorporated within the next update of this policy*

### 3.6 Severance payments

We reviewed all severance payments that occurred during the year with a focus on settlements which could be seen to be excessive or unusual.

There were two payments of this nature paid during the year. The amounts were confirmed to appropriate documentation, i.e. the supporting record of settlement and were signed by all relevant parties.

We noted, however, that these two payments contained a tax-free component for hurt and humiliation payments under section 123 of the Employment Relations Act. We understand that Council did not seek tax advice prior to the payment of these settlements and on review of the relevant files management considers that Council may have a tax liability in relation to these payments.

From our experience we note, that most of the amounts awarded by the Courts for hurt and humiliation are under \$10,000, and only a small percentage are over \$15,000. In general, it would be very difficult to convince the IRD that any payments over \$20,000 are not at least partially taxable. In cases where there is no evidence of a genuine personal grievance, the IRD may consider that the entire payment is taxable.

Over the last few years, the tax treatment of payments for hurt and humiliation has become an area of focus for the IRD, with many public sector entities receiving amended PAYE assessments.

We recommend that Council obtain appropriate tax advice prior to making payments under s123 of the Employment Relations Act.

**Management comment**

*Council will ensure that appropriate advice from HR and Finance staff is taken in the event of future payments being made*

**3.7 Conflicts of interest**

We reviewed Council's processes for identifying and recording interests and how any potential conflicts of interest are managed if they arise.

Management raised and discussed with us a potential conflict of interest that was identified during the year. We are satisfied that the immediate actions Council undertook when the conflict was identified were appropriate and that the processes implemented subsequently have mitigated this conflict.

We remained alert for conflicts of interest in the course of our audit work. We did not identify any other conflicts of interest during the audit.

**3.8 Weathertightness**

We considered the information obtained by Council to determine its exposure to weathertightness claims and the adequacy and appropriateness of Council's accounting treatment and related disclosures in the financial statements.

Council's obligations and the accounting treatment are appropriately disclosed in the financial statements.

**3.9 Possible LTCCP amendments**

We remained alert for any possible amendments to Council's 2009-19 Long Term Council Community plan throughout the year, particularly during the preparation of the 2011/12 annual plan.

No potential amendments were identified.

**3.10 Elected members – remuneration and allowances**

We reviewed the 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.

There are no issues to bring to your attention.

## Section B: Miscellaneous and other matters

### 4 Miscellaneous matters

Below we comment on our findings and recommendations about less significant and miscellaneous matters.

#### 4.1 Library cash receipting

From our observations of the cash receipting procedures at the Richmond Library, we noted there is no second check performed of the daily takings to what is on the till tape and eftpos settlement. Customer services at Council re-count and receipt the cash, however they are only agreeing the cash counted to what is manually written on a cash sheet. This is not checked back to the till records or eftpos settlement. There is a further risk due to only one person counting the cash and preparing the banking at the library.

We recommend that a review should involve a second person agreeing the cash counted to the initial till takings receipt and eftpos settlement and verifying that the banking is correct via a signature on the daily cash sheet.

#### Management comment

*We agree with the comments and will make changes to procedures to ensure a review process is carried out by a second person in the Library. Cash counting and banking will be verified and signed off by a second person within the library; additionally printouts of eftpos settlement and till records will accompany the banking information sent to Customer Services.*

### 5 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 3 sets out the results of the reviews.

There are no issues that need to be brought to your attention.

**Appendix 1: Status of recommendations made last year**

**Outstanding matters**

Matter	Recommendation	Outcome and status
<p><b>Testing the ability to recover from back-up tapes</b></p> <p>At present, server backup tapes are not subject to regular testing to verify that full or partial data restoration is achievable. We recognise that ad hoc restoration of certain files may occur but do not consider that this adequately ensures the integrity and usefulness of the backups.</p> <p>In the absence of system restore testing, there is no guarantee that the backup tapes are readable and will be usable in the event of a server failure or more serious disaster.</p>	<p>We recommend that server backup tapes be subject to regular testing. This should involve a full restoration of data onto a test server and verification that the data recovered is complete and accurate.</p> <p>This testing can also be used to test the Disaster Recovery procedures for the server to ensure that this meets the business continuity requirements of the council.</p>	<p><b>Outstanding</b></p> <p>Even though regular file level and mail level restores from backup are made, we recommend that the council perform a test of disaster recovery arrangements and perform a full restore of critical servers. Depending upon the council's disaster recovery plan, this may include re-establishing operations from the offsite backup virtual server or full recovery from tape.</p> <p><b>Management comment</b></p> <p>We keep replicos of tier one business systems at the Disaster Recovery (DR) site. Additionally we ship our optical backup tapes to this DR location daily. An improvement we are making is to also replicate the disk staging backups to this DR site on a weekly basis.</p> <p>We will make a commitment to schedule a recovery of tier one business systems at this recovery site once per annum and undergo some user testing. The Christmas holiday period is when this task will be scheduled.</p> <p>The TDC Information Systems Disaster Recovery plan defines tier one systems.</p>

**Cleared matters**

Matter	Recommendation	Outcome and status
<p><b>Maintenance of the interest register</b> Councillors' interests are declared at Council or committee meeting. These declarations are recorded in Council minutes. However, these declarations are not always updated in Council's formal interest register.</p>	<p>We recommended Council update and maintain its interest register. This will assist with identifying previously declared interests and also for identifying and disclosing related party transactions within Council's financial statements as required by relevant accounting standards.</p>	<p><b>Cleared</b> Council's formal interest register has been updated.</p>
<p><b>Regular review of user accounts</b> User accounts have been checked in August 2010 and in December 2010 to ensure that there were no accounts that had not been used in the last 90 days still active on the system. No checking was done of active accounts to confirm that they were valid. If the Information Services Section is not advised that an account should be terminated, it is possible that an old staff member's account could be used to access the council's systems as the core business systems utilise the network account to verify the access.</p>	<p>It is recommended that on a quarterly basis that user accounts are checked against the active staff listing to confirm that all active user accounts can be agreed to a currently active staff member. All temporary staff and contractor accounts should have an End Date loaded as these are enabled for a specific period of time as required. Resource and System accounts can be checked against a known list of accounts. Accounts that do not agree with the defined lists should be disabled.</p>	<p><b>Cleared</b> A twice yearly process has been introduced to review user access. We sighted the "Users Last Login Date" spreadsheet which checks that only current users are enabled – report dated 5 Jul 2012, prepared by the Server Systems Administrator.</p>

Matter	Recommendation	Outcome and status
<p><b>Security event log on the domain controller</b></p> <p>On checking the Security Event log on the Domain Controller, it was found that this was only showing the events for the past 23 hours before the log was overwritten.</p> <p>A new version of Active Directory has been installed in the previous two months.</p>	<p>It is recommended that the events being captured by the log are retained for a period that would aid an investigation into an incident.</p> <ul style="list-style-type: none"> <li>• Review the number and type of events that are being captured to ensure that no frequent events are being audited unnecessarily.</li> <li>• Review the space allocated to the Security log so that the window of events captured when an attack occurs is large enough that the incident can be reviewed at a later point in time.</li> </ul> <p>A baseline of events captured should be established so that in the future the activity can be compared to a known normal state, to identify unusual or unexpected behaviour that may indicate anomalous activity</p>	<p><b>Cleared</b></p> <p>The Security Log on the Domain Controller is now extended to 1GB, allowing a large period of logging.</p> <p>We sighted the "Windows Security Event Log" on screen, with entries back 20 days to 3 July 2012.</p>



**Appendix 2: Details of reviews on behalf of the Auditor-General**

Issue	Status/Findings
Annual Report adoption and public release dates	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 will be forwarded to the Office of the Auditor-General (OAG) when the dates of the summary annual report are known.
Local Authority exemptions for Council Controlled Organisations (CCOs)	We were asked to advise the OAG on the 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. Council exempted Port Golden Bay on 27 June 2012.
Local Authorities emissions and measurement and reduction	We were asked to gather information about the activities of local authorities in the area of emissions measurement and reduction. This information has been collected and forwarded to the OAG.

**Item 7.3**

**Attachment 1**



## 7.4 CORPORATE SERVICES MANAGER'S REPORT: STATUS OF AUDIT RECOMMENDATIONS

Information Only - No Decision Required

**Report To:** Audit Subcommittee  
**Meeting Date:** 7 March 2013  
**Report Author:** Murray Staite, Corporate Services Manager  
**Report Number:** RFN13-03-18  
**File Reference:** C761

### 1 Summary

- 1.1 This report updates the Subcommittee on the status of audit recommendations contained within the 2012 audit management letter.

### 2 Draft Resolution

**That the Audit Subcommittee receives the Corporate Services Manager's Report: Status of Audit Recommendations RFN13-03-18.**

**3 Status of Audit Recommendations**

- 3.1 To enable effective monitoring by this subcommittee staff have been asked to ensure that any outstanding audit matters from the previous year’s audit management letter are placed on the agenda.
- 3.2 Below is an extract from the 2012 audit management letter along with a staff update.

<b>Matter</b>	<b>Recommendation</b>	<b>Outcome and Status</b>
<p><b>Testing the ability to recover from backup tapes</b>                      At present, server backup tapes are not subject to regular testing to verify that full or partial data restoration is achievable. We recognise that ad hoc restoration of certain files may occur but do not consider that this adequately ensures the integrity and usefulness of the backups.                      In the absence of system restore testing, there is no guarantee that the backup tapes are readable and will be usable in the event of a server failure or more serious disaster.</p>	<p>We recommend that server backup tapes be subject to regular testing. This should involve a full restoration of data onto a test server and verification that the data recovered is complete and accurate.</p> <p>This testing can also be used to test the Disaster Recovery procedures for the server to ensure that this meets the business continuity requirements of the Council.</p>	<p><b>Outstanding</b>                      Even though regular file level and mail level restores from backup are made, we recommend that the Council perform a test of disaster recovery arrangements and perform a full restore of critical servers. Depending upon the Council’s disaster recovery plan, this may include re-establishing operations from the offsite backup virtual server or full recovery from tape.</p> <p><b>Management Comment</b>                      We keep replicas of tier one business systems at the Disaster Recovery (DR) site. Additionally, we ship our optical backup tapes to this DR location daily. An improvement we are making is to also replicate the disk staging backups to this DR site on a weekly basis. We will make a commitment to schedule a recovery of tier one business systems at this recover site once per annum and undergo some user testing. The Christmas holiday period is when this task will be scheduled. The TDC Information Systems Disaster Recovery Plan defines tier one systems.</p>

**4 Appendices**

Nil