

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

**Far North District Council**

For the year ended 30 June 2019

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## Key messages

We have completed the audit for the year ended 30 June 2019. This report sets out our findings from the audit and draws attention to areas where the Far North District Council is doing well and where we have made recommendations for improvement.

### **Audit opinion**

We issued our audit report on 3 October 2019. Our report included an unmodified opinion on the financial statements and statement of service provision. This means we were satisfied that these statements present fairly the Council's activities for the year and its financial position at the end of the year.

### **Matters identified during the audit**

There is a small number of new recommendations following this year's audit. There continue to be a number of outstanding recommendations that need to be addressed and closed, however we have identified a number of areas where Council is currently undertaking a process to address outstanding recommendations with a view of closing these matters in the subsequent year.

### **Impairment assessment**

We identified that a number of asset classes were revalued with an effective date of the valuation occurring during March and April 2019. While bringing the valuation process forward did allow Council to process the valuations earlier, and for us to commence our valuation work prior to year-end, there was still a need to consider the existence of impairment from the date of valuation up to balance date. We were satisfied from our conversations with management that there were no indicators for these asset classes, however, we do recommend that impairment be formally considered for this period as part of preparing next year's financial statements.

### **Thank you**

We would like to thank the Council, management and staff for their assistance throughout the audit.



David Walker  
Appointed Auditor  
28 November 2019

# 1 Recommendations



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

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

## 1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p><b>Carrying value of assets subject to periodic valuation</b></p> <p>We recommend that Council prepare an impairment assessment to cover the period between valuation date and years end to ensure any indicators of impairment are considered as part of preparing the financial statements.</p>	3	Necessary
<p><b>Kerikeri Civic Centre Trust loan guarantee</b></p> <p>Council should seek up to date financial information from the Trust to determine whether Council continues to have a financial guarantee liability or if the Trust has sufficient resources to service the loan without Council's assistance.</p>	3	Necessary

Recommendation	Reference	Priority
<p><b>Conflict of interest management</b></p> <p>A documented approach should be introduced detailing how declared conflicts of interest for staff members are reviewed and mitigations are implemented. The mitigations put in place for each declared interest by staff should be recorded in the Interests Register. We also recommend that all conflict of interest management plans are signed off by staff to confirm that they understand and accept the required mitigations.</p>	4.1	Necessary
<p><b>Periodic review of network logon accounts</b></p> <p>We recommend that the Active Directory is regularly reviewed to verify that user network logon accounts comply with Council password rules and that the accounts have not become redundant.</p>	4.2	Necessary
<p><b>Disclosure of agriculture assets</b></p> <p>Council should consider the disclosure requirements for agriculture assets applicable to the group financial statements and ensure that appropriate systems are in place to obtain this information from Far North Holdings Limited as part of the consolidation process.</p>	4.3	Necessary

## 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous years' recommendations. Appendix 1 sets out the status of previous year's recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	1	10	3	14
Implemented or closed	0	3	0	3
<b>Total</b>	<b>1</b>	<b>13</b>	<b>3</b>	<b>17</b>

## 2 Our audit report

### 2.1 We issued an unmodified audit report



We issued an unmodified audit report on 3 October 2019. This means we were satisfied that the financial statements and statement of service provision present fairly the District Council's activity for the year and its financial position at the end of the year.

### 2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. All significant misstatements identified during the audit have been corrected, other than the item below.

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Rate and rate penalty revenue	1				1,954,000
Impairment of rates receivable expense					(1,954,000)
<b>Total parent and group</b>					<b>0</b>

#### Explanation of uncorrected misstatements

- 1 At the point the revenue is recognised, the Council should only be recording the rates and rates penalties that it expects to receive. This "day zero impairment" should not be recognised as an impairment expense. Rather, the revenue balance should be reduced accordingly. Based on current collection rates, revenue and expenses are overstated by an estimated \$1,954,000.

#### Management comment for not adjusting

*This adjustment has not been made to the accounts as it requires significant analysis of data in relation to Maori freehold land.*

*As arrears on Maori Freehold Land is a significant issue that is being worked on constantly the level of tracking and adjustments required to give effect to this standard are prohibitive, not repeatable and the quantum can move given the fluid nature of the arrears.*

*It should be acknowledged that Council are unique in the level of Maori Freehold Land arrears and hence have such a misstatement. This has been discussed with Audit NZ to ensure that the \$1.954 million does not exceed their significance level.*

## 2.3 Corrected misstatements

We also identified misstatements that were corrected by management. These corrected misstatements had an effect on the disclosure between two current asset classes as reflected in the table below.

Current year corrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Cash and cash equivalents		2,625,801			
Sundry debtors		(2,625,801)			
<b>Total parent and group</b>		<b>0</b>			

### Explanation of corrected misstatements

- At year-end an amount was received by the District Council after the close of business but before balance date. This was not initially recorded as part of Council's year-end processing and was recorded in the draft financial statements as a sundry debtor and a reconciling item in the Council's bank reconciliation as at 30 June 2019. Given the quantum of the receipt this was subsequently adjusted by Council in the Annual Report adopted by Council.

## 2.4 Corrected disclosure deficiencies

### Detail of disclosure deficiency

A number of disclosure misstatements were identified which were all adjusted prior to the completion of the audit. The most significant disclosure deficiencies related to capital commitments, amounts in the notes that did not agree to the amounts on the face of the financial statements and prior year amounts that did not agree to the prior year annual report.

## 2.5 Corrected performance reporting misstatements

### Detail of misstatement

A number of performance reporting misstatements were corrected during the course of the audit, these mainly related to the prior year reported figures being incorrectly disclosed.

## 2.6 Quality and timeliness of information provided for audit



Management are responsible for providing information for audit relating to the annual report of Far North District Council. This includes the draft annual report with supporting working papers.

We continue to see improvements in the quality and timeliness of information provided to us for audit. We are working with management on further improvements that can be made to the process and plan to hold a debrief session during November 2019 to identify improvements that can be made as we head into next year.

### 3 Matters raised in the Audit Plan



In our Audit Plan of 17 April 2019, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
<b>Carrying value of assets subject to periodic valuation</b>	
<p>Far North District Council recognises a range of asset classes at fair value in its financial statements.</p> <p>The Council is required to carry out valuations with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>Given the ongoing movements in construction costs, there is a risk that the fair value is materially different from carrying value. These have been addressed during the course of the audit.</p> <p>The Council has revalued certain classes of roading, storm water, community facilities and land under roads as at 30 June 2019, as well as its maritime and heritage assets.</p>	<p>We have assessed whether any material valuations have been performed in accordance with PBE IPSAS 17, Property, Plant and Equipment. In particular, we have:</p> <ul style="list-style-type: none"> <li>• obtained assurance that the valuation methodology complies with accounting standards;</li> <li>• assessed whether the fair value reasonably reflects the condition of assets (professional assistance was sought (valuers)) and therefore their remaining useful lives; and</li> <li>• checked that the Council has correctly accounted for the revaluation in its financial statements.</li> </ul> <p>We have reviewed the Council’s fair value assessment for assets which are not revalued at balance date and agree with management’s assessment that the value of these asset classes has not moved materially to require a full revaluation.</p> <p>We have also reviewed any disclosures made by the District Council for compliance with PBE IPSAS 17.</p> <p>Council have performed this year’s valuations with an effective date ranging from March to April 2019. While impairment has been considered as part of the valuation process there was no formal impairment assessment performed following the completion of the valuation process up to balance date. From enquiries made we were satisfied that there were no known indicators of impairment that would materially affect this year’s financial statements.</p>

Audit risk/issue	Outcome
	<p>Going forward we recommend that Council prepare an impairment assessment to cover this period and ensure any indicators of impairment are considered as part of preparing the financial statements.</p> <p><b>Management comment</b></p> <p><i>This was the first attempt by Council to bring the adoption date forward. The impairment assessments were not provided for the dates between valuation and year end as there were no material changes in circumstances that would result in impairment. This was notified to Audit and it is noted that the impairment review needs to be completed if the timeframe adopted for this set of accounts is retained going forward.</i></p>
<b>Carrying value of property, plant and equipment measured at cost and intangible assets</b>	
<p>For property, plant and equipment (PPE) held at cost and intangible assets, Council is required to undertake an annual assessment for indicators of impairment in accordance with the accounting standards. The bar is even higher for intangible asset work in progress, which is required to be tested for impairment.</p>	<p>We have considered Council's impairment assessment for assets carried at costs and confirmed that the conclusions reached by management appear reasonable. Council has recognised \$1.534 million of impairment in relation to the Russell wharf which Council has agreed to transfer to Far North Holdings Limited for the value of \$1 following the completion of a public consultation process.</p> <p>We have reviewed the recognised impairment and confirmed it has been accounted for in line with PBE IPSAS 21, <i>Impairment of Non-cash Generating Assets</i>.</p>
<b>The risk of management override of internal controls</b>	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>As part of our audit we have:</p> <ul style="list-style-type: none"> <li>• the testing of appropriateness of selected journal entries;</li> <li>• reviewed accounting estimates for indications of bias; and</li> <li>• evaluated any unusual or one-off transactions, including those with related parties.</li> </ul> <p>No issues were noted from the work performed.</p>

Audit risk/issue	Outcome
<b>Accounting for controlled entities</b>	
<p>The wider Council Group is made up of a number of entities. As Council is the ultimate parent entity in the group, there is a need for determining what entities need to be accounted for in Council's group financial statements as well as ensuring there are appropriate processes in place with these entities to get relevant information for inclusion in Council's parent and group financial statements.</p> <p>At balance date we noted there were several new entities such as the Pou Herenga Tai Twin Coast Cycle Trail Charitable Trust (100% owned subsidiary) and Northern Adventure Experience Limited (49% owned directly (24%) and indirectly the Twin Coast Cycle Trail Charitable Trust (25%)) This is in addition to Far North Holdings Limited and Te Ahu Charitable Trust, which have been consolidated by Council for a number of years.</p>	<p>We have considered the financial information for both new entities and noted that neither entity is material to the Group financial statements. Pou Herenga Tai Twin Coast Cycle Trail Charitable Trust has commenced trading and has been consolidated into the Council's group financial statements while Northern Adventure Experience Limited has recently been established and is yet to commence trading.</p>
<b>Kerikeri Civic Centre Trust loan guarantee</b>	
<p>In 2003, the Council agreed to be a guarantor for the loan that the Trust had obtained from Westpac. A Memorandum of Understanding (MoU) was put in place between the Council and the Trust.</p> <p>The Council has recognised this financial guarantee at fair value in its financial statements.</p> <p>We understand that the Trust may have received a significant bequest in recent years which could enable the Trust to repay the loan and that the likelihood of the Council's guarantee being called on may therefore have reduced, however it was unclear whether there were conditions attached to the bequest that would restrict the use of these funds.</p>	<p>We have considered whether the Council has measured the financial guarantee in accordance with PBE IPSAS 29, Financial Instruments: Recognition and Measurement, which requires financial guarantees to be measured, after initial recognition, at the higher of the:</p> <ul style="list-style-type: none"> <li>• present value of the estimated amount to settle the guarantee obligation if it is probable that there will be an outflow to settle the guarantee; and</li> <li>• amount initially recognised less, when appropriate, cumulative amortisation as revenue.</li> </ul>

Audit risk/issue	Outcome
<p>The Council needed to re-measure the financial guarantee at balance date to ensure it remains appropriate to recognise each year.</p>	<p>We found that the Council has reduced the carrying value of the financial guarantee by \$113k which reflects the reduction in the loan balance between years. The Council has not been able to obtain sufficient information from the Trust to determine if there are conditions attached to the bequest which would prevent it from being used to make repayments on the loan. The Council has therefore been reluctant to further adjust the carrying value of the financial guarantee at this point in time.</p> <p>We reviewed the disclosures made by the Council in the financial instruments note included in the financial statements and were satisfied that these complied with the accounting standards in all material respects.</p> <p>We recommend that Council seek up to date financial information from the Trust to determine whether Council continues to have a financial guarantee liability or if the Trust has sufficient resources to service the loan without Council's assistance.</p> <p><b>Management comment</b></p> <p><i>Council will be reviewing the financial position of the Kerikeri Civic Centre Trust during the 2019/20 financial year. The outcome of that review will be used to determine whether this liability remains on the Council balance sheet going forward.</i></p>

## 4 Matters identified during the audit



During the audit we identified the following matters not specifically identified as part of our planning.

### 4.1 Conflict of interest management

The Council does not have a formal approach for ensuring that conflicts of interest that exist for staff are properly managed. Any declared interests are currently referred through to the staff member's manager who is responsible for ensuring a management plan is put in place. There is a risk that either the staff member's manager does not make a decision as to how the conflict is to be managed or that the staff member declaring the conflict is not aware of, or does not understand what mitigations are to be put in place to manage that conflict.

We recommend that Council has a documented approach as to how declared conflicts of interest for staff members are reviewed and mitigations are implemented. The mitigations put in place for each declared interest by staff should be recorded in the Interests Register. We also recommend that all conflict of interest management plans are signed off by staff to confirm that they understand and accept the required mitigations.

#### Management comment

*The Council now uses SharePoint to record all conflicts of interest and management plans are stored within this system. The Manager – People & Capability and the General Manager – Corporate Services are discussing the possible transfer of the monitoring and update of the register to the Financial Services team.*

### 4.2 Periodic review of network logon accounts

A formal process has been established to regularly review Council's "Active Directory" (AD) to ensure that user network logon accounts are current. Council policy is that user's passwords must expire and be changed every 35 days.

We obtained a current listing of network user accounts and reviewed these exceptions with Information Services operational staff.

We noted there is a high number of user network logon accounts that have no requirement for a password change and additionally that there are many accounts that have not been used for a period longer than six months.

The risk of unauthorised access to Council systems is increased if the control procedures around user logon accounts, such as account creation and maintenance, are not in place and operationally effective. Redundant user accounts are often used as a target for unauthorised access to an organisation's network.

We recommend that the Active Directory is regularly reviewed to verify that user network logon accounts comply with Council password rules and that the accounts have not become redundant.

#### **Management comment**

*Following the Audit in April 2019, Council officers have undertaken to update the management tool used to create and maintain the user accounts in Active Directory. Council is also in the process of moving to Office365 and this process is being used to update and validate accounts that are in use and comply with the Council network password policy requirements.*

*Council internal QA will also be completing a review of the existing processes to ensure all components are completed.*

*Council will be reviewing the amount of accounts used as well as reviewing the on-boarding and cessation process to ensure accounts are disabled correctly.*

*Several the accounts that were highlighted were external contractor accounts. This process is also being reviewed so that IT is notified when the contractor's engagement has been completed.*

*Council is planning to have completed a review of the new policy process by the next Audit in 2020. This will be used by all Council staff.*

### **4.3 Disclosure of agriculture assets**

During the year Far North Holdings Limited (FNHL) acquired assets from a local Honey Bee business through a business acquisition. We were satisfied that these assets were correctly disclosed in FNHL's financial statements in line with the Tier 2 reporting requirements of NZ IAS 41 – *Agriculture*. When FNHL is consolidated into the Council's group financial statements (applying Tier 1 reporting) there are additional disclosure requirements under PBE IPSAS 27 – *Agriculture*, which does not have the Tier 2 disclosure concessions.

We recommend that Council consider the disclosure requirements for agriculture assets applicable to the group financial statements and ensure that appropriate systems are in place to obtain this information from FNHL as part of the consolidation process.

#### **Management comment**

*Council will include this issue in the checklist of information required from CCOs for consolidation of accounts.*

## 5 Public sector audit



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

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

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

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

No issues were identified based on the work we performed as part of this year's audit.

## 6 Group audit



The group comprises:

- Far North District Council;
- Far North Holdings Limited;
- Te Ahu Charitable Trust; and
- Pou Herenga Tai Twin Coast Cycle Trail Charitable Trust.

We have not identified any of the following during our audit for the year ended 30 June 2019:

- Limitations on the group audit.
- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

## 7 Useful publications



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

Description	Where to find it
<b>Client updates</b>	
<p>In March 2019, we hosted a series of client updates. The theme was “Improving trust and confidence in the public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client updates</a></p>
<b>Model financial statements</b>	
<p>Our model financial statements reflect best practice we have seen. They are a resource to assist in improving financial reporting. This includes:</p> <ul style="list-style-type: none"> <li>• significant accounting policies are alongside the notes to which they relate;</li> <li>• simplifying accounting policy language;</li> <li>• enhancing estimates and judgement disclosures; and</li> <li>• colour, contents pages and subheadings to assist the reader in navigating the financial statements.</li> </ul>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Model Financial Statements</a></p>
<b>Client substantiation file</b>	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client Substantiation File</a></p>

Description	Where to find it
<b>Severance payments</b>	
<p>Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny. The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payments to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.</p>	<p>On the OAG’s website under 2019 publications. Link: <a href="#">Severance payments</a></p>
<b>Matters arising from the 2017/18 audits</b>	
<p>The OAG has published a report on the results of the 2017/18 audits for the sector.</p>	<p>On the OAG’s website under publications. Links: <a href="#">Local Government</a></p>
<b>Good practice</b>	
<p>The OAG’s website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> <li>• audit committees;</li> <li>• conflicts of interest;</li> <li>• discouraging fraud;</li> <li>• good governance;</li> <li>• service performance reporting;</li> <li>• procurement;</li> <li>• sensitive expenditure; and</li> <li>• severance payments.</li> </ul>	<p>On the OAG’s website under good practice. Link: <a href="#">Good practice</a></p>
<b>Post-implementation reviews</b>	
<p>The OAG have recently completed a review of Auckland Council’s post-implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post-implementation review checklist.</p>	<p>On the OAG’s website under publications. Link: <a href="#">Post-implementation review process</a></p>

# Appendix 1: Status of previous recommendations

## Open recommendations

Recommendation	First raised	Status
<b>Urgent</b>		
<p><b>Significant projects</b></p> <p>We recommended that the Council make sure that, for each project:</p> <ul style="list-style-type: none"> <li>• robust project governance and management structures are in place;</li> <li>• a project plan is developed;</li> <li>• a procurement plan is documented;</li> <li>• a comprehensive risk register is maintained;</li> <li>• regular project reporting is undertaken; and</li> <li>• adequate systems and controls are in place for:               <ul style="list-style-type: none"> <li>○ recording and appropriately classifying expenditure;</li> <li>○ ensuring the business benefits are identified, planned, implemented, managed and monitored through appropriate change management; and</li> <li>○ identifying commitments for disclosure in the Council’s financial statements.</li> </ul> </li> </ul> <p>We also recommended that the Council consider obtaining independent assurance over significant projects to provide the Council with comfort that appropriate project management practices are being applied.</p>	<p>2016 or earlier</p>	<p>The Council is making good progress with this and there is some improvements in this area have been sighted in the conducting of the 2019 audit.</p> <p>The Project Management Office is working on a Council-wide project management framework which will be based on best practice guidelines. This framework will be approved and rolled out in the 2020 financial year.</p> <p><b>Management comment</b></p> <p>1) <i>Project Management Framework for Infrastructure released:</i></p> <ul style="list-style-type: none"> <li>• <i>Infrastructure delivery processes now in use. Adopted Aug 2019.</i></li> <li>• <i>Resource Consents processes in development. Due for adoption Jan 2020.</i></li> </ul> <p>2) <i>Project Management training:</i></p> <ul style="list-style-type: none"> <li>• <i>IAM Project Management Framework briefing presentations and key staff training. Complete Oct 2020.</i></li> <li>• <i>Organisation wide roadshow. Due Feb 2020.</i></li> </ul> <p>3) <i>Infrastructure Portfolio Management processes:</i></p> <ul style="list-style-type: none"> <li>• <i>Organisation wide usage of the PMF for early planning and development of the capital works programme. Due April 2020.</i></li> </ul>

Recommendation	First raised	Status
		<p>4) <i>Business Case Framework:</i></p> <ul style="list-style-type: none"> <li>• <i>Decision-making process to support investment decisions by Council and senior management. Utilised by Portfolio, Programme and Project management processes. Due Feb 2020.</i></li> </ul> <p>5) <i>Project Management Framework for Business Projects refresh:</i></p> <ul style="list-style-type: none"> <li>• <i>Update processes in line with Business Case Framework. Due March 2020.</i></li> </ul> <p>6) <i>Project Portfolio Management system – automated software.</i></p> <p><i>Business case due Dec 2019 to provide support of project planning, prioritisation and management enterprise wide.</i></p>
<b>Necessary</b>		
<p><b>Resource management deposits</b></p> <p>We recommend management reviews resource management deposits and makes an assessment as to whether they still meet the definition of a liability.</p> <p>If not, they should be released to revenue.</p>	2018	<p>The Environmental Services Manager has advised that FNDC will address these bond payments by preparing a case file for each bond payment and assessing whether the bond payment should be released. FNDC implemented this review in May 2019 and have completed the first 12 case files. FNDC expects that this review will be completed by the end of the 2019 calendar year.</p> <p>We will follow up on progress made as part of next year’s audit.</p> <p><b>Management comment</b></p> <p><i>Noted. Regular updates will be sought from the team on this issue.</i></p>
<p><b>High annual leave balances</b></p> <p>We recommended that annual leave balances are regularly reviewed and action is taken to actively manage the leave liability and mitigate the associated risks.</p>	2017	<p>Leave balances continue to be high.</p> <p><b>Management comment</b></p> <p><i>Managers are required to work on leave management plans with staff that have high leave balances.</i></p>

Recommendation	First raised	Status
<p><b>Cashing up on annual leave</b></p> <p>We recommend that Council’s leave policy is updated to reflect the legal limits and approval processes for cashing up annual leave balances.</p>	2018	<p>The policy is currently under review and that there is a plan to get employees to either take the annual leave or to allow employees to cash up outstanding annual leave.</p> <p>We will follow up on progress made as part of next year’s audit.</p> <p><b>Management comment</b></p> <p><i>Council have updated their policy and reflected the current cashing out of leave to match legislation.</i></p>
<p><b>Segregation of duties – Journal entries</b></p> <p>We recommend that management investigate whether changes can be made to the settings in TechOne to prevent the same person from being able to prepare and approve a journal.</p>	2018	<p>Management advised that the Accounting software does not allow for this automated control and manual controls are being implemented. During the audit instances were still identified where journals were raised and approved by the same user.</p> <p>We will follow up on progress made as part of next year’s audit.</p> <p><b>Management comment</b></p> <p><i>Noted. Staff are reminded regularly that they are not allowed to process journals they have created. A monthly report will be reviewed and any instances where this has occurred will be dealt with. If necessary, staff breaching this control will have access removed.</i></p>
<p><b>User access within TechOne accounting software</b></p> <p>We recommend that management reviews user access rights within TechOne on a regular basis to make sure that they are consistent with the Council’s policy.</p>	2018	<p>During the audit we identified an instance where an Accounts Payable officer posted and approved an invoice instead of this being approved by the Manager Transactional Services. We consider this matter to still be outstanding and will follow up on progress as part of next year’s audit.</p> <p><b>Management comment</b></p> <p><i>Noted.</i></p>

Recommendation	First raised	Status
<p><b>Valuation of land under roads</b></p> <p>We recommended that the Council consider the appropriateness of the methodology used for valuing land under roads.</p>	2017	<p>We have worked with management to determine an approach going forward to resolve this matter. As the valuation of land under roads was already completed at the time of determining the approach this will be implemented in preparing next year's financial statements.</p> <p>We will review this as part of next year's audit with a view of closing this once the relevant changes are incorporated.</p> <p><b>Management comment</b></p> <p><i>This has been addressed as part of Council's valuation processes for the 2019/20 year.</i></p>
<p><b>Consolidated financial statements</b></p> <p>Issues noted with the group financial statements in the prior years that could result in material misstatements going forward are as follows:</p> <ul style="list-style-type: none"> <li>• Revaluation cycles - we found that not all assets in a class are revalued at the same time by all entities in the group. For example, FNHL revalues their land and buildings annually and the District Council does not.</li> <li>• The District Council currently accounts for FNHL land, buildings and runways as separate asset classes for revaluation purposes in the group financial statements. Unless the FNHL assets are entirely different asset classes from the District Council's, the revaluation reserve that relates to assets owned by FNHL should be included in the same revaluation reserve line for the relevant asset class in the group financial statements (whether that is land, buildings etc).</li> </ul>	2018	<p>Some improvements were noted during this year's audit such as similar asset classes from component entities being grouped into the same asset class in the consolidated financial statements.</p> <p>One part of this issue has been closed during the 2019 year as follows:  <i>"Inconsistent application of group accounting policies - some accounting policies are not applied consistently across the group. We found that airport assets are carried at cost by the District Council (Kaitia airport) and are revalued by FNHL (Kerikeri airport). Accounting standards require consistent accounting policies to be applied by the District Council in preparing the group financial statements."</i> FNDC do not own the airport assets anymore.</p> <p>While progress has been made there is still some areas that need to be addressed before this matter can be closed.</p> <p><b>Management comment</b></p> <p><i>Council are taking steps to ensure that outstanding areas of concern are addressed.</i></p>

Recommendation	First raised	Status
<p><b>Deferral of capital expenditure</b></p> <p>We recommended that the Council give consideration to the impact of deferred capital expenditure on asset condition and any potential impact this may also have on Council's asset valuations and impairment assessments for future reporting cycles.</p>	<p>2016 or earlier</p>	<p>Council continues to experience issues in delivering the full capital plan detailed in the Council's 2018-28 Long-Term Plan.</p> <p>We understand this is an area of focus for Council with a longer term plans of building a better understanding of Council's assets which will assist with asset planning processes in future years.</p> <p><b>Management comment</b></p> <p><i>Council has commenced programme Darwin which is aimed at addressing a group of issues with asset management. Delivery of the capital programme being one of these issues. Council is reviewing the capital programme for future plans to ensure that it is achievable from inception and is limited to what can reasonably be delivered.</i></p>
<p><b>Conflict of interest</b></p> <p>We recommend that:</p> <ul style="list-style-type: none"> <li>• improvements are made to policies and procedures in connection with the management of conflicts of interest as a matter of priority; and</li> <li>• perceived conflicts are proactively managed. This could include making a proactive disclosure to the market to give participants a level of comfort about the District Council's management of perceived conflicts of interest.</li> </ul>	<p>2016 or earlier</p>	<p>This has been raised for a number of years and remains outstanding. While not considered an urgent recommendation it does fall short of expected good practice for an entity of Council's size and complexity. Given the reputational risk this could give rise to if Council gets this wrong we have raised this again in section 4.1 of our report.</p> <p><b>Management comment</b></p> <p><i>See response in 4.1 of the report.</i></p>

Recommendation	First raised	Status
<p><b>Payroll masterfile changes</b></p> <p>We recommended a payroll master file changes report is generated on a regular basis and reviewed by someone independent of the person making the changes and who does not have access to make changes to the master data themselves.</p>	<p>2016 or earlier</p>	<p>Council is in the process of recruiting for a staff member who will help address this and the overall controls within Council's payroll system. We understand Council's current payroll staff do not have capacity to address this issue.</p> <p><b>Management comment</b></p> <p><i>This has been actioned and is undertaken by our People &amp; Capability Coordinator Lead.</i></p>
<p><b>Beneficial</b></p>		
<p><b>Information security policies</b></p> <p>The information security policies were reviewed as part of the Information Security Audit and while due for review, were found to be adequate in terms of content as were the processes sitting in behind these policies and adherence to both.</p> <p>An Internal Policy review was also undertaken by FNDC's Internal Auditor in 2018 and a review programme is underway (these policies scheduled for March 2019 – there were no urgent issues identified with these policies through the audit therefore the updating has been prioritised against other commitments the IS Team have).</p>	<p>2016 or earlier</p>	<p>At the time of the audit, the Kaon/MPA Policy System framework has been purchased and the IT related policies were being reviewed, approved and published.</p> <p><b>Management comment</b></p> <p><i>The Kaon/MPA Policy System framework has been purchased and will be reviewed in February/March 2020 with a view to roll out across the organisation.</i></p>
<p><b>Property. plant and equipment disclosure</b></p> <p>We recommended that management reviews the PPE disclosures in the financial statements in advance of the next annual reporting cycle and considers whether changes can be made so that these more fully comply with the accounting standards.</p>	<p>2017</p>	<p>We understand that this matter will be considered as part of preparing next year's financial statements.</p> <p><b>Management comment</b></p> <p><i>Council will review this for the next Annual Report.</i></p>

Recommendation	First raised	Status
<p><b>Carbon credits</b></p> <p>We recommended that the Council recognise the carbon credits that it acquired at fair value at the date of acquisition.</p>	<p>2017</p>	<p>The carbon credits that were presented to Council in relation to forestry are deemed to have no value as Council has not yet determined a harvesting policy and it is not clear if the credits would need to be surrendered if replanting was not an option.</p> <p>This matter remains outstanding and will be considered again next year.</p> <p><b>Management comment</b></p> <p><i>The IAM team have been asked to review forestry holdings with the aim of creating a harvesting strategy so that this issue can be addressed.</i></p>

## Implemented or closed recommendations

Recommendation	First raised	Status
<p><b>Supporting documentation for leave entitlements</b></p> <p>We recommended that management ensures all personnel files are kept up to date with appropriate supporting documentation for any changes made to employee entitlements.</p>	2017	<p>During our audit we did not identify any of the issues around the supporting documentation for leave entitlements.</p> <p>This issue have been closed.</p>
<p><b>New supplier set up process and review</b></p> <p>We recommended that the Council formalises the process of setting up a new supplier, including ensuring that appropriate supporting documentation is received before a change is made to the Masterfile.</p> <p>We also recommended that a system generated report which includes all changes to the Masterfile is extracted on a monthly basis and independently reviewed by a staff member who does not have edit access to the Masterfile.</p> <p>The process for setting up a new supplier should also include making enquiries to determine whether a related party relationship exists between new suppliers and the staff member requesting the supplier be set up. This check should be documented before a new supplier is set up.</p>	2016 or earlier	<p>We have sighted the new supplier form and noted improvements made by the Council.</p> <p>The new form requires supporting documentations to be attached by the supplier otherwise the account will not be set up. A conflict of interest declaration is also required from the requester.</p> <p>This issue is now closed.</p>
<p><b>Payroll controls</b></p> <p>We recommended that consideration is given to implementing an independent review of timesheet data entered into the payroll system. Such a review should be evidenced to show that it is being carried out.</p>	2016 or earlier	<p>A manual control has been implemented during the year where someone with no payroll access reviews the summary of what has been recorded in payroll system to the timesheet data.</p> <p>This issue is now closed.</p>

## Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect instances 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.</p>
Auditor independence	<p>We are independent of the Far North District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit, we have performed a limited assurance engagement related to the District Council's debenture trust deed. Other than these engagements, we have no relationship with, or interests in, the Council or its subsidiaries and controlled entities.</p>
Fees	<p>The audit fee for the year is \$173,875 as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$6,875, for limited assurance engagement related to the District Council's debenture trust deed.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with Far North District Council or its subsidiaries and controlled entities that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with Far North District Council or its subsidiaries and controlled entities during or since the end of the financial year.</p>

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