

Report to the Council on the audit of

Far North District Council

For the year ended 30 June 2020

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Key messages

We have completed the audit for the year ended 30 June 2020. This report sets out our findings from the audit and draws attention to areas where the Council is doing well and where we have made recommendations for improvement.

Audit opinion

We issued our audit report on 10 December 2020. 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.

Without modifying our audit opinion, we included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements relating to the effect of the Covid-19 pandemic on Far North District Council.

Matters identified during the audit

There is a small number of new recommendations following this year's audit. These are summarised in section 1.1. of this report with the supporting detail in section 4. There are also a number of outstanding recommendations from prior years. These are summarised in section 1.2 of this report and detailed in Appendix 1. All recommendations will be followed up during our audit for the year ended 30 June 2021.

Thank you

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



David Walker
Appointed Auditor
28 May 2021

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>Needs to be addressed <i>urgently</i></p> <p>These recommendations relate to a significant deficiency that exposes the Council to significant risk or for any other reason need to be addressed without delay.</p>
Necessary	<p>Address at the earliest reasonable opportunity, <i>generally within six months</i></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>Address, <i>generally within six to 12 months</i></p> <p>These recommendations relate to areas where the 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	Ref.	Priority
<p>Compliance with PBE IPSAS 17 property, plant and equipment</p> <p>The Council need to ensure the entire class of property, plant and equipment to which the asset subject to revaluation belongs shall be revalued to fully comply with PBE IPSAS 17.</p> <p>We also recommend that the Council review its disclosure to address these deficiencies identified in Property, plant and equipment note of the annual report.</p>	4.1	Necessary

Recommendation	Ref.	Priority
Network administrator user accounts The allocation of powerful system administration user accounts is only provided to those people whose job role it is to maintain the network operating systems software and data. Further, these accounts should be associated with strong authentication rules to guard against being compromised.	4.2	Necessary
Performance reporting control environment Council should establish appropriate controls around the performance reporting process for RFS-related performance measures to ensure calculation methodology used comply with DIA guidance and that those results are fairly stated in the annual report.	4.3	Necessary
Non-compliance with the Local Government (Rating) Act Council should ensure there is a robust review in place to ensure consistency between these documents in the future so that rates are charged in line with the overall rates resolution approved by Council.	4.4	Necessary
Bank suspense account Council should ensure suspense accounts are monitored regularly and cleared in a timely manner.	4.5	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	0*	9	4	13
Implemented or closed	0	6	0	6
Total	0	15	4	19

**Urgent recommendation we have previously raised has been re-assessed as "Necessary" as significant progress have been made.*

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 10 December 2020. 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.

Without modifying our audit opinion, we included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements relating to the effect of the Covid-19 pandemic on Far North District Council.

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 items below.

Current year uncorrected misstatements	Ref.	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Rate and rate penalty revenue	1				2,082,000
Impairment of rates receivable expense					(2,082,000)
Rate and rate penalty revenue	2				(554,000)
Unbilled accruals		554,000			
Total group		554,000			(554,000)

Explanation of uncorrected misstatements

- 1 At the point 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 estimated to be overstated by \$2,082,000.
- 2 Due to the Covid-19 Level 4 lockdown, water meters could not be read for Kaikohe and they were not billed on their water consumption during the lockdown period. The unbilled water consumption for Kaikohe had not been accrued for, and therefore, the revenue and accrued debtors are estimated to be understated by \$554,162.

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	Ref.	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Movement to Retained Earnings	1				580,000
Retained Earnings				(580,000)	
Total group				(580,000)	580,000

Explanation of corrected misstatements

- 1 To recognise the accounting mismatch between FNHL and FNDC after dividend declared before 30 June 2020.

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. These mainly related to note disclosure not being updated from prior year according to current year's actual results.

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 results being incorrectly calculated and which were subsequently corrected.

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 and appreciate management's efforts.

3 Matters raised in the Audit Plan



In our Audit Plan of 8 July 2020, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
Impact of Covid-19	
<p>In recent weeks there has been a global response to Covid-19. This has created significant uncertainty for all entities across the public sector as well as communities and families. While we expect this will create a number of issues that will impact on your business and Annual Report we have not attempted to detail these in the audit plan, given events continue to evolve and the implications are changing day-by-day.</p> <p>Our primary response at this stage is to make sure our staff are safe and that we continue to work collaboratively and safely with the Council to complete your audit. We plan to meet with management where possible, and maintain up to date with the implications of Covid-19 for as this continues to develop in the coming weeks and months.</p>	<p>The Covid-19 pandemic did not have a significant financial impact on the Council and group and on its ability to meet performance targets.</p> <p>We assessed whether the Council and group's financial statements and performance information contained sufficient information and disclosures for readers to understand the impact of Covid-19 on its operations and financial statements.</p> <p>Based on our audit work, we were satisfied that the main impacts of the pandemic were appropriately disclosed in the notes to the financial statements and in the statement of performance.</p> <p>We have included an emphasis of matter paragraph in our audit report to draw the attention of readers to these disclosures.</p>
Carrying value of assets (subject to periodic revaluations)	
<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.</p> <p>The Council will therefore need to formally assess whether fair value is materially different from carrying value and whether a valuation is required.</p>	<p>We enquired whether any material valuations had been performed in accordance with PBE IPSAS 17, Property, Plant and Equipment. In that regard, and in particular, we:</p> <ul style="list-style-type: none"> obtained assurance that the valuation methodology complies with accounting standards; assessed whether the fair value reasonably reflects the condition of assets (professional assistance was sought (valuers)) and therefore their remaining useful lives; and

Audit risk/issue	Outcome
<p>This assessment needs to be completed early in the audit process so that, if a full valuation is required, there is sufficient time for this to be completed, and the accounting entries processed.</p>	<ul style="list-style-type: none"> checked that the Council has correctly accounted for the revaluation in its financial statements. <p>Council have performed this year's valuations with an effective date ranging from May to June 2020. Impairment has been considered as part of the valuation process and also through enquiries following the completion of the valuation process up to balance date.</p> <p>We also enquired with Council into the existence of any other known impairment indicators which the Council have confirmed they are not aware of any.</p> <p>The valuers had considered the impact of Covid-19 in completing the revaluation.</p> <p>We have obtained sufficient assurance that the fair value of land and buildings is not materially different to carrying value due to uncertainties resulting from the impact of Covid-19 pandemic.</p> <p>For new recommendations raised, refer to section 4.1 below.</p>
Carrying value of Property, Plant and Equipment measured at cost and intangible assets	
<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>Due to the subjectivity involved in making this assessment, there is an inherent risk that the carrying values of PPE measured at cost and intangible assets are overstated.</p> <p>In recent years there has been an increase in severe weather events. These have had an impact on local infrastructure in the far north. It has not always been clear how the Council has considered this when valuations have been undertaken or when it has been undertaking its impairment assessments.</p>	<p>We have considered Council's impairment assessment for assets carried at costs and confirmed that the conclusions reached by management appear reasonable.</p> <p>We have reviewed the impairment and confirmed that the Council has complied with PBE IPSAS 21, <i>Impairment of Non-cash Generating Assets</i>.</p>

Audit risk/issue	Outcome
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management 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"> • tested the appropriateness of selected journal entries; • reviewed accounting estimates for indications of bias; and • evaluated any unusual or one-off transactions, including those with related parties. <p>No issues were noted from the work performed.</p>
Accounting for controlled entities	
<p>The Far North District 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>Council will also need to assess the impact of the different accounting framework that are in place across the FNDC group and ensure appropriate adjustments are made in the group financial statements.</p> <p>This is especially important this financial year given the implementation of new accounting standards that may impact on the Council. The following standards come into effect for the financial year beginning 1 July 2019:</p> <ul style="list-style-type: none"> • PBE IPSAS 34 <i>Separate Financial Statements</i>. • PBE IPSAS 35 <i>Consolidated Financial Statements</i>. • PBE IPSAS 36 <i>Investments in Associates and Joint Ventures</i>. • PBE IPSAS 37 <i>Joint Arrangements</i>. 	<p>We have considered the financial information for all controlled entities and noted that none of them were material to the Group financial statements.</p> <p>The Council and the Group were also required to adopt a new suite of group accounting standards in preparing the 30 June 2020 financial statements.</p> <p>We have reviewed the accounting policies for compliance with the new standards and assessed the adequacy of disclosures in the financial statements.</p> <p>No issues were identified as a result of the work we performed.</p>

Audit risk/issue	Outcome
<ul style="list-style-type: none"> PBE IPSAS 38 <i>Disclosure of Interests in Other Entities</i>. 	
Reinstatement of four well-beings to the Local Government Act 2002	
<p>The Government has reinstated the “Four well-beings” to the Act. The purpose of local government is once again “to promote the social, economic, environmental, and cultural well-being of communities”.</p> <p>The Act has reintroduced the requirement for a local authority’s Annual Report to describe any identified effects that any activity within the group of activities has had on the social, economic, environmental, or cultural well-being of the community, as opposed to the previous more general requirement to describe those effects on “the community” per clause 23(d) of Schedule 10 of the Local Government Act 2002.</p> <p>Now that the requirement has been reintroduced, Council will need to ensure that the Annual Report complies with Schedule 10 of the Act disclosures for the year ended 30 June 2020.</p>	<p>We reviewed the disclosure made in the Annual Report and assessed whether the disclosure complies with Schedule 10 of the Act.</p> <p>No issues were identified.</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 Compliance with PBE IPSAS 17 *Property, plant and equipment*

Not all assets in Roading asset class have been revalued this year. For example, Streetlighting, Quarries and Ferry assets, which form part of the roading activity asset class, were not revalued as at 30 June 2020 as these assets are not scheduled to be revalued until the next financial year.

This does not technically comply with PBE IPSAS 17 paragraph 51, as where an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs must be revalued.

We recommend that the Council needs to ensure the entire class of property, plant and equipment to which the asset subject to revaluation belongs should be revalued to fully comply with PBE IPSAS 17.

In addition, the Property, plant and equipment note disclosure showed Land under Roads as being classified as Operational Land under “Operational Assets”. Land under roads should be classified as an infrastructural asset class in the financial statements.

Water and Wastewater assets were split into “Treatment Plants and Facilities” and “Other”. For Water and Wastewater assets that are classified as “Other”, there should be appropriate narration disclosed to explain what assets are classified as “Other”.

We recommend that Council reviews its disclosure to address these deficiencies identified in the Property, plant and equipment note of the annual report.

Management comment

Paragraphs 51A and 52 of IPSAS 17 do not actual define what a class of assets should be. In the above Audit comment, an Activity is being defined as a class of assets but that is not how Council determine an asset class. Paragraph 52 provides examples of asset classes, of which Roading is one, but the detail behind that is not defined. Council have several “classes” of asset that are revalued as required. Council does not agree that current disclosures are deficient.

The Local Government (Financial Regulation and Prudence) Regulations 2014 paragraph 6 (2) (a) (ii) and paragraph 6 (2) (b) (ii) requires Council to disclose “Other assets” with these noted as “such as reticulation systems” but it does not require Council to define what “other” means. Council does not agree that current disclosures are deficient but will amend the disclosures by replacing “other” with “reticulation systems”.

Paragraph 21 of IPSAS 17 advises that there is no universally accepted definition of infrastructure assets and does not include land under specific assets in the examples. Land under roads can be moved to infrastructural assets for 30 June 2021 as suggested but it is unclear on what basis this is being suggested.

Audit NZ comment

A “class” of asset for financial reporting purposes is defined in section 13 (PBE IPSAS 17) as: *“Class of property, plant and equipment means a grouping of assets of a similar nature or function in an entity’s operations that is shown as a single item for the purpose of disclosure in the financial statements.”* To clarify, a class of asset is not defined by an “activity”, but reference to “activity” portrays the “... grouping of assets of a similar nature or function ...” of the definition.

There may not be a universally accepted definition of infrastructure assets (PBE IPSAS 17.21), however there is a high degree of commonality across New Zealand Local Government on what would be included in infrastructure assets. FNDC’s own financial statements (page 82) refers; “Infrastructural asset classes: sewerage, water, refuse, stormwater and roading”. We acknowledge that FNDC’s PPE note goes on to refer to “sub-groups” of assets as asset classes.

What is clear is PBE IPSAS 17.51 requires that if an item of PPE is revalued “the entire class of property, plant and equipment to which that asset belongs shall be revalued”.

Council may need to consider clarifying which assets are in which classes. In doing that, consideration should also be given to maintaining the corresponding Revaluation Reserve for each class, noting the requirement to maintain a separate revaluation reserves for each class (PBE IPSAS 17.56); *“Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.”*

Having consider the above, and added further explanatory comment, our recommendation remains for the 2019/20 financial year.

4.2 Network administrator user accounts

We obtained a listing of all Active Directory (AD) accounts. We reviewed this list and targeted user accounts that have powerful administrative rights over systems software and data. These user accounts normally fall into the category of “Domain Administrator”, “Enterprise Administrator” and “Schema Administrator”. We expect these accounts to be limited to the people whose job role it is to administer systems software and data, for example Systems Engineers and contractors who are employed to perform specific IT tasks for Council.

Good business practice in managing these accounts includes limiting their issue to only those people who need them to perform their job role and that the accounts have strong authentication rules that preclude use by people who want to gain unauthorised access to

Council systems. Additionally, we often see that the people who own and use these accounts also have another account that they use for normal daily tasks.

Our review showed that there are many user accounts that have these systems administration rights and some of these do not conform to Council policy on user authentication rules.

We recommend that the allocation of powerful system administration user accounts is only provided to those people whose job role it is to maintain the network operating systems software and data. Further, these accounts should be associated with strong authentication rules to guard against being compromised.

Management comment

All network administrator user accounts have been reviewed and limited to specific IT staff that need this type of account to perform their job tasks.

IT staff that perform system administration as part of their job tasks have two network user accounts. They have one that is used specifically for system administration which is prefixed with "SA" (System Administration). They have a separate network user account for their non-system administration usage.

Multi Factor Authentication (Microsoft Authenticator) has been implemented for all FNDC staff including network administrator user accounts.

4.3 Performance reporting control environment

From our testing over water supply and wastewater measures, we have identified some weaknesses in the control environment for these measures.

Calculation and reporting processes are currently reliant on manual calculation and there are limited quality assurance controls in place. Data imported from the RFS (Request for Service) system gets manually copied over to an excel spreadsheet and calculation is formula driven throughout the workbook.

From our audit we have identified the following matters:

- formulas were inconsistently applied throughout the workbook;
- formulas used to calculate the results did not comply with the DIA guidelines;
- not all data from the RFS system extraction was copied over resulting in an incomplete population that was subsequently reported against; and
- not all data was captured accurately

Due to the issues identified, we have re-extracted the RFS population and performed re-calculation in line with DIA guidance to determine whether the reported results for the year have been materially misstated.

From the analysis carried out, the results were not materially different, and therefore, we were able to accept the results disclosed as materially correct.

We recommend that the Council establish appropriate controls around the performance reporting process for RFS-related performance measures to ensure calculation methodology used comply with DIA guidance and that those results are fairly stated in the annual report.

Management comment

To mitigate the above, FNW have been developing a new automated reporting system (Go Canvas Analytics), which minimize the requirement for manual input. This has been worked on for the past year and is in the final review stages. It will be fully implemented close of June 21.

4.4 Non-compliance with the Local Government (Rating) Act

During our review of the Council's rating system we identified a minor non-compliance whereby the Council's Funding Impact Statement did not agree to the Rates Resolution that was approved by Council. The discrepancy between these documents was small with the variance representing \$0.10 per rating unit for the Kaikohe Sewerage Capital rate. While the difference was small this still represents a minor non-compliance with the Local Government (Rating) Act. The risk to Council is that if the discrepancy was challenge by a ratepayer whether through legal action that rate could be set-aside.

We recommend Council ensures that there is a robust review in place to ensure consistency between these documents in the future so that rates are charged in line with the overall rates resolution approved by Council.

Management comment

Management acknowledge that this was an error. The Funding Impact Statement is externally reviewed by Simpson Grierson and is internally checked at three points during the process. Unfortunately, due to the similarity of the numbers involved, none of the checks identified the difference. Management will ensure that a robust checking process is in place going forward that is completed outside of the finance team.

4.5 Bank suspense account

Bank suspense account is used for monies that cannot be allocated at the time of deposit where Banking Services have been unable to identify what the payment was for. Payments made which cannot be allocated due to lack of information remain in this suspense account. During the year, we noted that the bank suspense accounts were not being cleared in a timely manner with balance ageing between two to three months.

We recommend that suspense accounts are monitored regularly and cleared in timely manner.

Management comment

Majority of the payments added to the suspense occur on and around rates instalment due dates due to missing or unclear references. These tend to be cleared within a few days once receipts are received or identified when rate payers contact us after receiving a penalty notice.

For this last reason, staff wait until after instalment due date each month before they return funds which allows customers to receive penalty notices, contact Council and claim the payments. For instance:

- 1) Instalment 1 due date 20 August 2020*
- 2) Penalty run 27 August 2020*
- 3) Letters sent to rate payers 28 August 2020*
- 4) Allow 2-3 weeks for rate payers to contact us 18 September 2020*
- 5) Clear suspense account 30 September 2020.*

Outside of instalment due dates, other Council teams are contacted to help identify unknown payments or staff ask Council's bank to request further information from the originating bank. Once staff have exhausted all options, they ask the bank to return the funds to the payee.

Staff are taking the following actions this rating year to reduce the number of payments moving in and out of the suspense account:

- Contact all rate payers who pay multiple accounts but submit remittances to incorrect Council departments which results in a 3-5 working day delay or more, and request they send direct to Banking Services.*
- Updating Bill Payee registration information with all major banks, making Property Owner Surname and Rate Account Number (RA) or Water Account Number (WA) compulsory when their customers make online payments through their banking app.*
- Encourage more people to paying by Direct Debit or online via Council's website.*

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 taxes or rates has a right to know that the money is being spent wisely and in the way the 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
- Twin Coast Cycle Trail Charitable Trust (Pou Herenga Tai)
- Roland's Wood Trust
- Far North Regional Museum Trust
- Northern Adventure Experience Limited

We have not identified any of the following during our audit for the year ended 30 June 2020:

- 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 District Council, we have included some publications that the Council and management may find useful.

Description	Where to find it
Sensitive expenditure	
The Auditor-General has updated his good practice guide on sensitive expenditure. The guide provides practical guidance on specific types of sensitive expenditure, outlines the principles for making decisions about sensitive expenditure, and emphasises the importance of senior leaders “setting the tone from the top”. It also describes how organisations can take a good-practice approach to policies and procedures for managing sensitive expenditure.	On the OAG’s website under publications. Link: Sensitive expenditure
Covid-19 Impact on Public Sector Reporting	
<p>The state of emergency in response to the Covid-19 coronavirus has significantly impacted most public sector entities. The consequences for the completion of annual reports and the annual financial statements are one part of this impact.</p> <p>We are developing a series of Bulletins in response:</p> <ul style="list-style-type: none"> • revaluations of property, plant and equipment and investment property; • service performance reporting; and • financial reporting. 	On our website under good practice. Link: Covid-19 bulletins
Client updates	
<p>As part of our response to the Covid-19 situation, we developed online client updates to replace the in-person sessions that were cancelled.</p> <p>This year’s material is accessible via video presentations on our website. You can explore the material at a pace that takes account of your busy schedule.</p> <p>The themes respond to challenges that our clients now face, such as planning for unexpected events or dealing with additional reporting requirements related to Covid-19 and climate change.</p>	On our website under publications and resources. Link: Client updates

Description	Where to find it
Client substantiation file	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On our website under good practice.</p> <p>Link: Client Substantiation File</p>
Long-term plans and consultation documents	
<p>Having audited long-term plans (LTPs) since 2006, we understand the significant effort that councils invest in preparing an LTP.</p> <p>We want to make the audit process for the 2021-31 LTPs and consultation documents as straightforward as possible, so we have put together some information to help councils to:</p> <ul style="list-style-type: none"> • understand our responsibilities and our main focus areas in the audit; • prepare better documents for their communities; and • develop project plans that make their LTP process go smoothly. 	<p>On our website under good practice.</p> <p>Link: Long-term plans and consultation documents</p>
Conflicts of interest	
<p>The Auditor-General has recently updated his guidance on conflicts of interest. A conflict of interest is when your duties or responsibilities to a public organisation could be affected by some other interest or duty that you have.</p> <p>The update includes a printable A3 poster, an animated video on predetermination and bias, gifts and hospitality, and personal dealings with a tenderer. There is also an interactive quiz.</p> <p>These can all be used as training resources for your own employees.</p>	<p>On the Office of the Auditor-General's website under 2019 publications.</p> <p>Link: Conflicts of interest</p>

Description	Where to find it
Severance payments	
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 payment 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.	On the OAG's website under 2019 publications. Link: Severance payments
Good practice	
<p>The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. 	On the OAG's website under good practice. Link: Good practice
Procurement	
<p>The OAG are continuing their multi-year work programme on procurement.</p> <p>They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.</p> <p>This is focused on local government and therefore, relevant to the District Council.</p>	On the OAG's website under publications. Link: Procurement article

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
<p>Periodic review of network logon accounts</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>	2019	<p>Open</p> <p>A formal process has been established to regularly review “Active Directory” (AD) to ensure that user network logon accounts are current. Council policy is that network user account passwords must expire and be changed on a regular basis.</p> <p>We noted there are a high number of network user logon accounts that have no requirement for the password to change and additionally, there are many accounts that have not been used for a period longer than six months.</p> <p>We noted that an Internal Audit review of network user accounts was carried out in March 2020 and highlighted similar issues to our review.</p> <p>We continue to recommend that the review of Active Directory is completed and is regularly performed thereafter to ensure that network user logon accounts comply with Council password rules and good business practice.</p>
<p>Cashing up on annual leave</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>Open</p> <p>Some progress has been made since our last report. From our review of the policy we note that there is guidance for cashing out annual leave but no mention of legal limits.</p>
<p>Segregation of duties – Journal entries</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>Open</p> <p>The current software does not allow such change to be made in the settings in TechOne.</p> <p>Investigation is planned to take place when the software is upgraded going forward.</p>

Recommendation	First raised	Status
		We will continue to follow up on our recommendation as part of a later audit visit.
<p>User access within TechOne accounting software</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>Open</p> <p>We noted that an Internal Audit review of network user accounts was carried out in March 2020 and highlighted user access-related issues as well.</p> <p>We continue to recommend that a formal review process on user access rights within TechOne be implemented for management to review on a regular basis to make sure that they are consistent with the Council's policy.</p>
<p>Consolidated financial statements</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"> 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 revalue their land and buildings annually and the District Council does not. 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, 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.). 	2018	<p>Open</p> <p>We continued to note that not all assets in a class are revalued at the same time by all entities in the group. Same issue was noted at the Parent level this year as highlighted under Section 4.1 above.</p> <p>We also note that the accounting treatment for CAPEX PGF funding recognition and other non-cash transactions between the group entities shall be considered carefully as part of the group financial statements consolidation process.</p> <p>We recommend that the consolidation process undertaken by Council also take into consideration the different recognition requirements between the group entities, for example between the FNHL (For-profit) and FNDC (Public Benefit Entity) when revenue and assets are recognised on the group accounts.</p>

Recommendation	First raised	Status
<p>High annual leave balances</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>Open</p> <p>Leave balances continue to be high.</p>
<p>Significant projects</p> <p>We recommended that the Council make sure that, for each project:</p> <ul style="list-style-type: none"> • robust project governance and management structures are in place; • a project plan is developed; • a procurement plan is documented; • a comprehensive risk register is maintained; • regular project reporting is undertaken; and • adequate systems and controls are in place for: <ul style="list-style-type: none"> ○ recording and appropriately classifying expenditure; ○ ensuring the business benefits are identified, planned, implemented, managed and monitored through appropriate change management; and ○ Identifying commitments for disclosure in the Council's financial statements. <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>	2016 or earlier	<p>Open</p> <p>This recommendation has previously been graded as an “urgent” recommendation to be addressed.</p> <p>This year we have seen significant progress made since our last report. The Council has developed the Project Management Framework in October 2019 and the Council currently have portfolio planning project underway which serves the purpose of developing the Prioritisation Plan. This will help with portfolio planning for the next LTP process.</p> <p>For training purposes, a programme of running PRINCE2 Foundation and in-house sessions are to be carried out, however, this was on hold due to drought and Covid-19 pandemic during the current year under review.</p> <p>We intend including a status update on this recommendation as part of a later audit visit.</p>

Recommendation	First raised	Status
Deferral of capital expenditure <p>We recommended that the Council gives 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>	2016 or earlier	Open <p>Council continues to experience issues in delivering the full capital plan detailed in the Council's 2018-28 Long-term Plan.</p> <p>As this issue is to be monitored and addressed through programme Darwin, we intend including a status update on this recommendation as part of a later audit visit.</p>
Conflict of interest <p>We recommend that:</p> <ul style="list-style-type: none"> improvements are made to policies and procedures in connection with the management of conflicts of interest as a matter of priority; and 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. 	2016 or earlier	Started <p>The Council now uses SharePoint to record all conflicts of interest and management plans are stored in Objective. FNDC staff records are in progress of being transferred into SharePoint.</p> <p>New staff are requested to fill in an Employee Declaration Form in SharePoint on their first day at FNDC.</p> <p>With the Council now maintaining the records on an electronic platform, we intend on substantively reviewing how effective this process is as part of a later audit visit.</p>
Beneficial		
Property, plant and equipment disclosure <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>	2017	Open <p>Some progress has been made since our last report. For further improvement points discussed, refer to Section 4.1 of this report.</p>
Carbon credits <p>We recommended that the Council recognise the carbon credits that it acquired at fair value at the date of acquisition.</p>	2017	Open <p>No progress has been made since our last report.</p>

Recommendation	First raised	Status
<p>Information security policies</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>Open</p> <p>We noted that the Far North District Council implemented information security management policies some time ago. However, these policies have not been reviewed and updated since 2011.</p> <p>With the changes in management structure during the current period it has been decided to set aside the Kaon/MPA Policy System framework. New IT related policies are to be developed, reviewed, approved and published.</p> <p>We continue to recommend that the task to develop, review, update and implement the information security policies is completed.</p>
<p>Conflict of interest management</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>	<p>2019</p>	<p>Started</p> <p>The Council now uses SharePoint to record all conflicts of interest and management plans are stored in Objective. FNDC staff records are in progress of being transferred into SharePoint.</p> <p>New staff are requested to fill in an Employee Declaration Form in SharePoint on their first day at FNDC.</p> <p>With the Council now maintaining the records on an electronic platform, we intend on substantively reviewing how effective this process is as part of a later audit visit.</p>

Implemented or closed recommendations

Recommendation	First raised	Status
Payroll Masterfile changes 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.	2016 or earlier	Implemented Management have actioned the recommendation and a HR Advisor reviews the Masterfile changes on a monthly basis from February 2020. The issue has been addressed.
Valuation of land under roads We recommended that the Council consider the appropriateness of the methodology used for valuing land under roads.	2017	Closed The Council no longer revalue land under roads. The issue has been closed.
Resource management deposits We recommend management reviews resource management deposits and makes an assessment as to whether they still meet the definition of a liability. If not, they should be released to revenue.	2018	Implemented A body of work was undertaken by the consenting team to identify refundable deposits. A significant portion of these deposits were written off to new natural account 1920 as an internal legal opinion confirmed that monies held more than six years can legally be written off. Consenting are continuing to monitor the remaining bonds held and refunding them there possible or advising the Financial Accountants if there are to be written off. The issue has been addressed and regular updates will be sought from the client to ensure that this process continues each year.
Carrying value of assets subject to periodic valuation 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.	2019	Closed We have sighted evidence of the Council considering impairment as part of preparing the financial statements to cover the period between valuation date and year end. This issue has been closed.

Recommendation	First raised	Status
<p>Kerikeri Civic Centre Trust loan guarantee</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>	<p>2019</p>	<p>Closed</p> <p>Council have recognised Nil financial guarantee liability for this year.</p> <p>From our review, it was assessed that Council is no longer required to recognise the liability nor contingent liability on the Kerikeri Civic Centre Trust loan guarantee.</p> <p>This issue has been closed.</p>
<p>Disclosure of agriculture assets</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>	<p>2019</p>	<p>Closed</p> <p>Council considered the disclosure requirements for agriculture assets applicable to the group financial statements and ensured to disclose information from Far North Holdings Limited as part of the consolidation process this year.</p> <p>This issue has been 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 Local Government 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 our audit and our report on the disclosure requirements, we have performed a limited assurance engagement related to the District Council's debenture trust deed and over the tender process for the swimming pool operators.</p> <p>Other than the audit and these engagements, we have no relationship with or interests in the District Council or its subsidiaries and controlled entities.</p>
Fees	<p>The audit fee for the year is \$176,483, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$6,985, 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 the District Council or its subsidiaries 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 the District Council or its subsidiaries during or since the end of the financial year.</p>

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