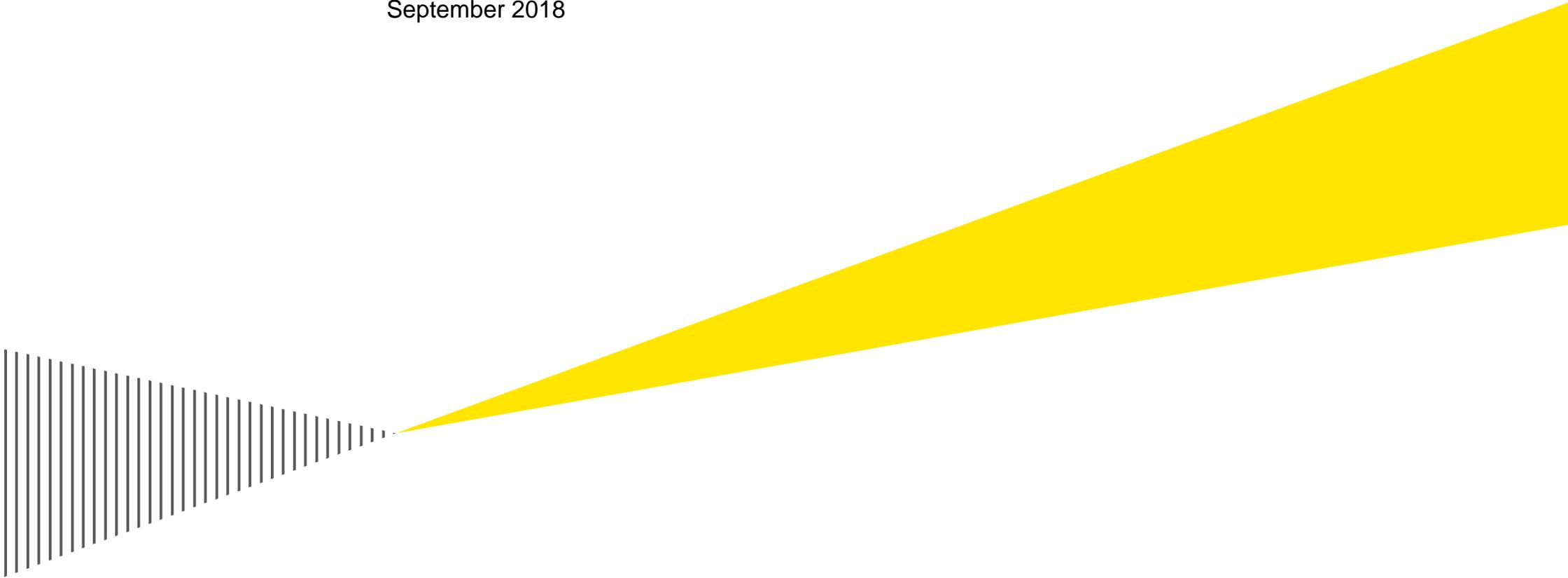


Central Hawke's Bay District Council

Report on Control Findings

September 2018



Building a better
working world



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21 September 2018

Bronda Smith
Group Manager - Corporate Support and Services
Central Hawke's Bay District Council
PO Box 242
Wellington

Dear Bronda

Control Findings for the year ended 30 June 2018

We have completed our audit of Central Hawke's Bay District Council ("CHBDC" or the "Council") for the year ended 30 June 2018.

This Report on Control Findings includes all significant control matters from our audit findings that we consider appropriate for review by management.

In accordance with the Auditor-General's Auditing Standards we performed a review of the design and operating effectiveness of CHBDC's key financial reporting processes. Our audit procedures do not address all internal control and accounting procedures and are based on selective tests of accounting records and supporting data. They have not been designed for the purposes of making detailed recommendations. As a result our procedures would not necessarily disclose all weaknesses in CHBDC's internal control environment.

We wish to express our appreciation for the courtesies and co-operation extended to our team during the course of their work. If you have any questions or comments, please do not hesitate to call me on 021 923 431.

Yours faithfully

David Borrie
Partner
Ernst & Young

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1. Overview

1.1 Overview of Risk Ranking System

To provide context around the seriousness of the matters we have raised we have ranked issues in this report by applying the following rating scale:

Number of new findings		
High Needs significant improvement	0	Immediate corrective action is required. These recommendations relate to a serious weakness which exposes the organisation to a material extent in terms of achievement of corporate objectives, financial results or otherwise impair CHBDC's reputation.
Moderate Needs substantial improvement	1	Corrective action is required, generally within 6 months. A control weakness, which can undermine the system of internal control and/or operational efficiency and should therefore be addressed.
Low Needs some improvement	4	Corrective action is required, generally within 6 to 12 months. A weakness which does not seriously detract from the system of internal control and/or operational effectiveness/efficiency but which should nevertheless be addressed by management.

1.2 Disclaimer

Issues identified are only those found within the course of the audit for year ended 30 June 2018. Recommendations are intended solely for the use of management. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Council or for any purpose other than that for which it was prepared.

1.3 2018 Audit Observations Summary

The following table summarises the key issues identified during our 2018 audit and their risk ranking:

Issue	High Needs significant improvement	Moderate Needs substantial improvement	Low Needs some improvement
Asset Condition information	-	✓	-
Credit rating of Rabobank bond	-	-	✓
Policies due for update	-	-	✓
Valuation of, and accounting policy for, loans	-	-	✓
Approval of the Chief Executive's expenses	-	-	✓
Total	-	1	4

1.4 2017 Audit Observations Summary

The following table summarises the 2017 recommendations, their risk and status at the conclusion of 2018:

Issue	Risk Needs significant improvement	Status - Resolved	Status - In progress	Status - No Change
Assets maintained outside of RAMM and Inaccurate/incomplete information in RAMM	High	✓	-	-
Register of members' interest	Moderate	✓	-	-
Properties assessed useful life	Moderate	-	✓	-
Land title discrepancies	Moderate	-	✓	-
Incorrect ageing of the Water rates debtors Aged Trial balance	Low	✓	-	-
Aged bond payments	Low	✓	-	-
Total issues from 2017				-

2. 2018 Observations

Moderate Risk Category Issues

Asset Condition information	
Observation	Some assets recorded in RAMM have limited or no condition information associated with the RAMM entry. Asset condition information helps determine an asset's useful life and therefore fair value. Better condition information would allow for a more accurate valuation.
Recommendation	We recommend a process be put in place to update the asset condition information in RAMM more frequently. Recording condition information for larger assets that currently have no condition information should be prioritised.
Management Response	Our new Professional Services Provider (Stantec) have developed data parsing scripts and algorithms to identify gaps and anomalies with RAMM data. The software provides a gap analysis of our RAMM data compared with pre-set expectations for data completeness and validity. An initial review of the RAMM data using Stantec's software has been programmed before the end of the calendar year and this will be completed at least annually moving forward.
Responsibility	Group Manager- Community Infrastructure and Development

Low Risk Category Issues

Credit rating of Rabobank bond	
Observation	We identified a Rabobank New Zealand \$600k bond with a long term S&P credit rating of 'A'. CHBDC's Treasury Management Policy specifies that any NZ Registered Bank should have a minimum S&P long term credit rating of 'A+' (or minimum 'A-1' for short term investments).
Recommendation	We recommend that investments be purchased in line with the Treasury management policy or if needed the policy be updated to reflect Council's current risk appetite.
Management Response	Officers are seeking guidance from PWC regarding the credit rating for long term vs short term specifically regarding the maturity timing. The Rabobank bond had a maturity date of 4 September 2018 so had been considered short term and therefore fell within the credit rating requirements of the policy. This bond has since matured. The policy is due for renewal in May 2019 and therefore it will be updated to reflect Council's current risk appetite at this time.
Responsibility	Group Manager – Corporate Support and Services

Policies due for update	
Observation	We noted a number of policies are past their date for revision. Examples of such policies include the Treasury Management Policy with a review date of September 2017 and the Tendering Policy with a review date of August 2017. There is a risk that outdated policies may not reflect the most up to date intentions of Council. It is important policies are updated in a timely manner, particularly when there is public visibility to policies via the council's website.
Recommendation	We recommend the Council update the policies, and in the future establish a process to ensure they are updated in a timely manner.
Management Response	The Treasury Management Policy has a review date of May 2019 however an incorrect date was included on the version on the website. The Tendering Policy was under review during the audit process and has since been superseded by the Procurement and Contract Management policy that was adopted by Council on 31 October 2018. A timetable for the review of policies had been developed and a number of the policies have been reviewed during this triennium. The schedule was put on hold during the LTP development and the review of the Bylaws. The schedule will be reviewed and the policies that have not been reviewed prior to or during the LTP cycle will be timetabled for review.

Responsibility	Group Manager – Corporate Support and Services
Valuation of, and accounting policy for, loans	
Observation	During the year Council borrowed funds through the LGFA. At 30 June 2018 these borrowings are being carried at amortised cost. Council's current accounting policy requires debt to be carried at fair value and Council's other debt is valued by First NZ Capital and carried at fair value. The LGFA borrowings are not valued in line with Council's accounting policy and are valued on an inconsistent basis to Council's other borrowings.
Recommendation	We recommend Council value debt in a consistent manner as well as in line with CHBDC's accounting policies.
Management Response	During the year end process, we were informed that First NZ Capital did not value LGFA debt as the debt is not listed or tradeable. Based on this the loan has been carried at amortised cost and the valuation was agreed with the auditors. For the 2018/19 year, the accounting policies will be reviewed to determine the most appropriate approach.
Responsibility	Group Manager – Corporate Support and Services

Approval of the Chief Executive's expenses	
Observation	As part of our sensitive expenditure testing, we identified that the Chief Executive's credit card expenses were approved by the Group Manager – Corporate Services. All expenses should be approved by a more senior member than the staff member incurring the expenses. In the case of the Chief Executive, these should be approved by a Council member.
Recommendation	We recommend that all expenses incurred by the Chief Executive are approved by a Council member.
Management Response	As part of the Delegations Manual, the CE expenses incurred on the credit card are to be approved by the Mayor. The credit card had previously been used as a business expense payment card where a credit card was required as the payment option. The CE has now starting using the credit card for expenses. Following this a new credit card has been issued to the Group Manager – Corporate Support and Services and over August and September, all the business expenses have been moved to the new business credit card. As of October 2018, the CE credit card will be used for CE expenses only and will be approved by the Mayor as per the delegations.
Responsibility	Group Manager – Corporate Support and Services

3. 2017 Observations

High Risk Category Issues

Assets maintained outside of RAMM and inaccurate/incomplete information in RAMM– CLOSED	
Observation	<p>Consistent with 2015 the road markings assets continue to be managed outside of RAMM. In addition, during the 2016 valuation it was identified traffic facilities of \$259k were not recorded in RAMM. GHD appropriately adjusted the valuation to reflect the assets maintained outside of RAMM.</p> <p>We performed testing on a sample basis of Roothing assets constructed and updated in RAMM during the 2015/16 year. We identified several assets where the information was either incomplete or incorrect i.e. the roading segment replaced per the contractor did not agree to what was recorded as replaced in RAMM.</p> <p>As GHD relies on the information within RAMM to complete the Roothing asset valuation there is a risk the valuation may be incorrect if information in RAMM is incomplete or inaccurate. Further, the condition information relating to the physical asset may be incorrect leading to unplanned or unnecessary maintenance of assets.</p>
Recommendation	<p>We recommend that a detailed review is performed on a regular basis each period i.e. quarterly, to ensure all information is included in RAMM. This is a critical process ahead of the full valuation being completed in the 2016/17 financial year.</p> <p>We recommend that a detailed review of the information within RAMM is performed to ensure it is both up to date and complete. This is a critical process ahead of the full valuation being completed for the 2016/17 financial year.</p> <p>In addition, we note GHD made a number of recommendations included in their valuation report (section 7). We concur with their recommendations.</p>
Responsibility	Shawn McKinley, Land Transport Manager
Management Response	We have already set up a process to train contractors and our own staff to capture data accurately and ensure it is entered into RAMM including a quarterly reconciliation process. We are also verifying existing data through inspections and filling in gaps as they are identified. Discussions with GHD regarding their recommendations are also taking place.
Update 2018	Assets which have previously been recorded outside of RAMM have been input into RAMM. We consider this matter closed.

Moderate Risk Category Issues

Register of members' interest – CLOSED	
Observation	No formal register of members' interest exists which includes all interests held by members of the management of the Council and the Council members themselves. To manage the risk to Council and own staff and Councillors, Council has a responsibility to establish and maintain a register of members' interest to record any potential conflicts of interest of elected members under the local authorities (members' interests) act 1968 and to safeguard management from conflicts. In the absence of an up to date register the Council is unable to identify potential conflicts of interest.
Recommendation	Management should establish a formal interest register that is documented and periodically reviewed to ensure that all interests are up to date. District Council establish policy to update the register of members' interest on a periodical basis and for it to be assessed internally to ensure the risk of conflicts is considered in a timely manner.
Management Response	This has been reviewed by the Council and it has been agreed not to establish a formal register of member's interests
Responsibility	Chief Executive
Update 2017	<p>Council has implemented a formal interest register and evidence based review for Councillors. We identified 1 Councillor was a director of two companies not disclosed on the interest register, but were satisfied the Council had no dealings with these companies. Council should continue to encourage Councillors to regularly update the interests' register.</p> <p>A process has also been started for key senior management personnel. We understand this is currently in progress. We will seek to review the process as this is formalised and documented in 2017/18.</p>
Management Response 2017	<p>The companies not disclosed on the interest register are now registered following this been brought to the Councillor's attention. Conflicts of Interest are called for at each Council meeting, and dealt with appropriately.</p> <p>A process is being put in place to record and manage Senior Management registrars of interest.</p>
Update 2018	Management have now implemented a conflicts of interest register. We consider this matter closed.

Properties assessed useful life (2016) – IN PROGRESS

Observation	<p>Telfer Young completed a valuation of the Council's property assets as 30 June 2016. Telfer Young also provided the estimated residual life of each property, which the Council uses to update and determine the depreciate charge each period. However, Telfer Young noted they used QV's estimated residual life assessment from the previous 2013 valuation and deducted three years. They noted this would not necessarily be the same estimated residual life had they completed a formal assessment.</p> <p>There is a risk the annual depreciation charge may be over or understated if the estimated residual life was different as a result of a formal assessment.</p>
Recommendation	<p>We recommend a formal assessment of the estimated residual life for property assets be included within the scope of the next valuation in 2019.</p>
Management Response	<p>This will be included in the next valuation in 2019.</p>
Responsibility	<p>Bronda Smith, Group Manager – Corporate Support and Services</p>
Update 2018	<p>We accept management's response and will carry this point forward to the next valuation</p>

Land title discrepancies – IN PROGRESS

Observation	<p>We obtained and reviewed the land titles for land owned by the Council on a sample basis to verify the information used by QV in their 2017 valuation of the Council's land and to validate the land is freehold. We identified a number of discrepancies between the Council records and the information used by QV. For one title the land information on the title was less than the area valued in by QV. In addition, a number of titles were not able to be obtained.</p> <p>There is a risk the Council records do not contain the most up to date information in relation to land titles. In addition, there is a risk QV may be performing their valuation on incomplete / inaccurate information.</p>
Recommendation	<p>We recommend a formal review be completed for land held by the council to ensure all land titles are available and the title area reflects the Council's records and that used by QV.</p>
Management Response	<p>As part of the valuation process, a percentage of the land owned by the Council is reviewed. The percentage and requirements will be reviewed prior to the next valuation. We will also review the process in place regarding any changes to land ownership to have current titles and gazette notice obtained and filed.</p>
Responsibility	<p>Bronda Smith, Group Manager – Corporate Support and Services</p>
Update 2018	<p>We accept management's response and will carry this point forward to the next valuation</p>

Low Risk Category Issues

Incorrect ageing of the Water Rate Debtors Aged Trial balance - CLOSED	
Observation	<p>We identified the aged trial balance for water rate debtors does not correctly record the aging of debtors when the report is run at a date subsequent to the point in time requested i.e. if the report is run on the 3rd of July for the period ended 30th June it will incorrectly add 2 days to the debtor aging.</p> <p>As the Council does not use the aging report for debtor provisioning this would only impact required financial disclosures related to financial instruments should the Council become a Tier 1 reporting entity. Tier 1 PBE reporting entities are defined as those with operational expenditure above \$30m, the Council currently has \$29m.</p>
Recommendation	Should the Council become a Tier 1 reporting entity we recommend a formal process be implemented to perform a secondary check on the water rates aged debtor report to validate the financial instruments disclosures in the financial statements are recorded in the appropriate aging category.
Management Response	Should the Council become a Tier 1 reporting entity we will perform a secondary check on the water rates aged debtor report to validate the financial instruments disclosures in the financial statements are recorded in the appropriate aging category.
Responsibility	Bronda Smith, Group Manager – Corporate Support and Services
Update 2018	Management have implemented a more robust review process. We consider this point closed.

Aged bond payments - CLOSED	
Observation	<p>Through its legislative powers Council is in a position to require a bond payment from developers and property owners until required work on the properties under development has been completed. These projects can include subdivisions, relocations or vehicle crossings. Following completion or cancellation of the request, a refund to the bond payer is processed.</p> <p>Our review of the listing of bonds held at 30 June identified approximately \$150k of items of 1 year or older. Upon enquiry with the resource management team, we understand that the verification of the status of the work with the bond payers is a time consuming exercise and that this issue will be addressed in the current year.</p>
Recommendation	As several bonds held are aged 5 years and older, we recommend establishing a review process of the status of aged items to either release the bonds or for Council to complete the work with the remaining bond funds.
Management Response	A review process of the status of aged items to either release the bonds or for Council to complete the work with the remaining bond funds has been established and a working party are working through the list of bonds.
Responsibility	Te Aroha Cook, Regulatory Manager and Shawn McKinley, Land Transport Manager
Update 2018	We are satisfied that a review process is in place. We consider this point closed.

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