

Monday, 11 April 2022

*Te Hui o Te Kaunihera ā-Rohe o Heretaunga*

**Hastings District Council**

**Risk and Assurance Committee Meeting**

*Kaupapataka*

# Attachments Under Separate Cover

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*Te Rā Hui:*  
Meeting date: **Monday, 11 April 2022**

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*Te Wā:*  
Time: **9.00am**

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*Te Wāhi:*  
Venue: **Council Chamber  
Ground Floor  
Civic Administration Building  
Lyndon Road East  
Hastings**

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**TE KAUNIHERA Ā-ROHE O HERETAUNGA**

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	Attachment 1: Final Audit NZ Management Report to Council for year ended June 2021	15





## Hastings DC Risk and Assurance Insurance Presentation

Matthew Wilson and Deanna Macdonald

11 April 2022

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## AGENDA

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-  **Market Outlook**
-  **Insurance Levers**
-  **Valuations**
-  **Risk Governance Methodology**
-  **Next Steps**



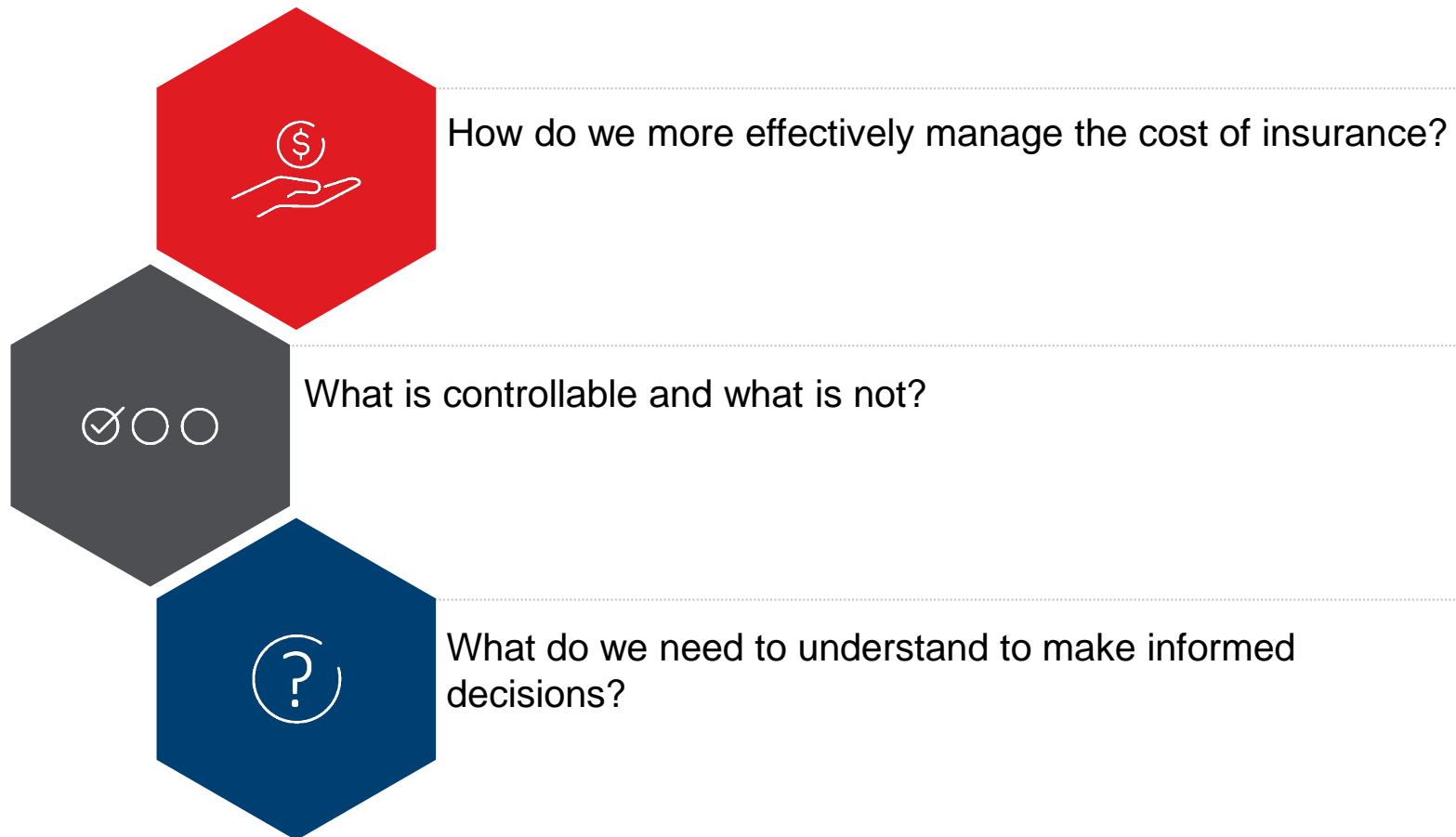
## INSURANCE MARKET – 2022 OUTLOOK

- Insurers 2021 results have been good with a consistent return to profit, expect a move from remediation to growth.
- Insurer underwriting practices are more rigorous and data driven.
- For well managed 'standard' risks competition will increase. Hard to place risks (or those with significant claims) will require excellent data and submissions to differentiate risk.
- London markets may turn faster than local, noting that London is more expensive currently.
- Cyber (especially ransomware) surpassed Directors and Officers, and Natural Disasters are the most strained class of business.
- Professional Indemnity continues to be of concern.
- Focus on values/inflation, supply chain and ESG.

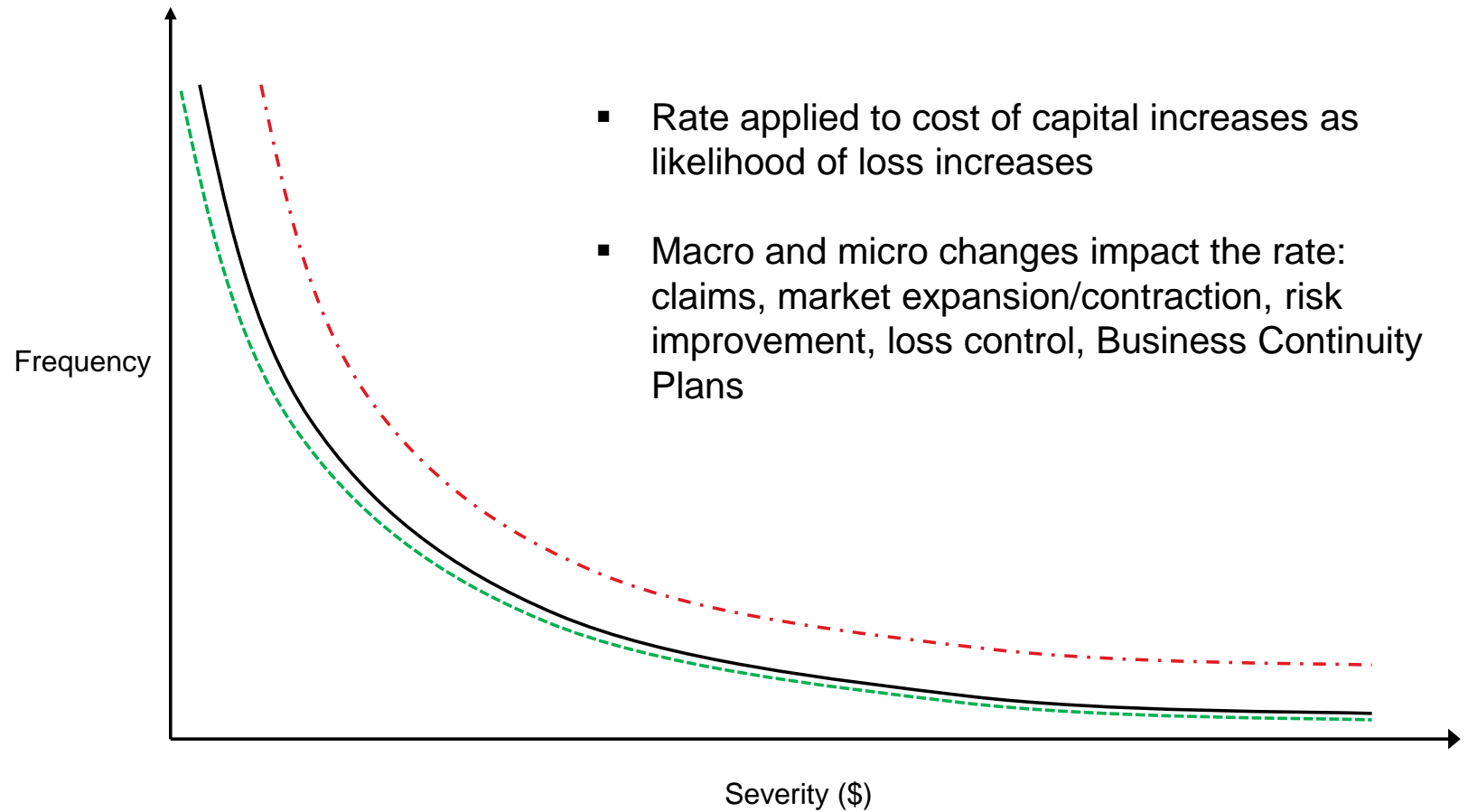


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## Insurance levers, controlling the cost

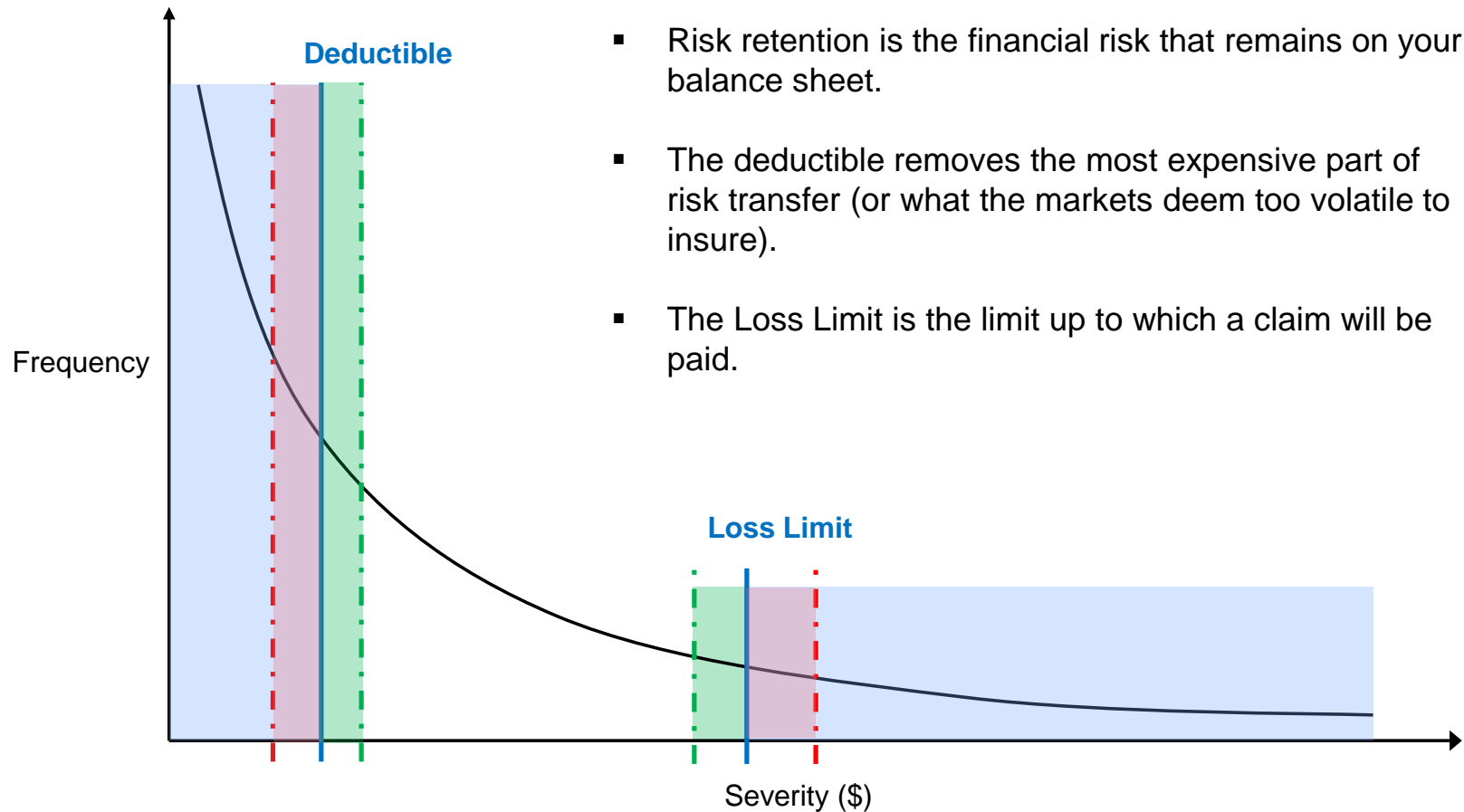


## Underwriting curves



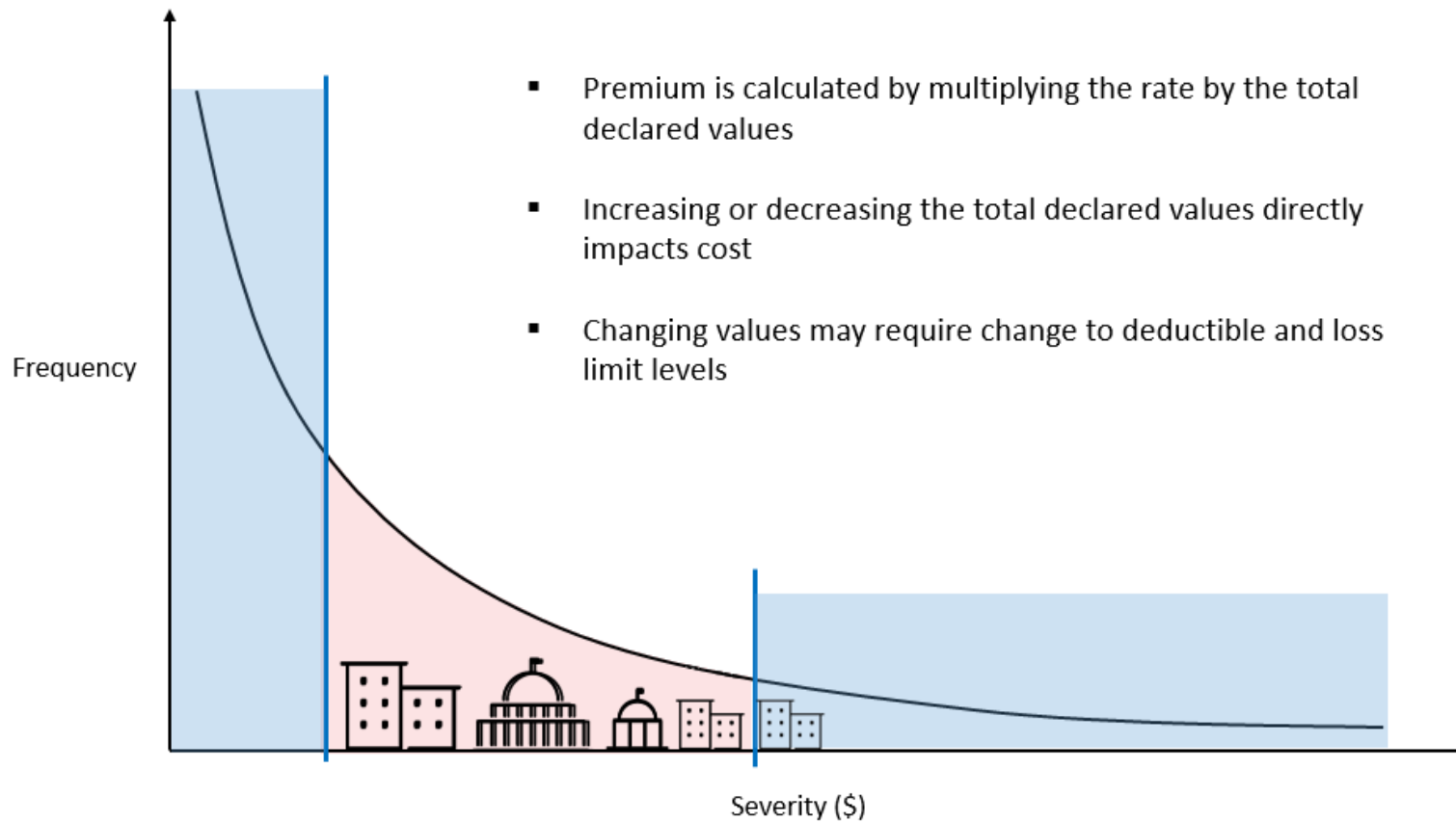


## Retentions



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## WHY DECLARED VALUES ARE IMPORTANT



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## LEVERS SUMMARY

### Rate

What is controllable?

- Risk management
- Active engagement with markets
- Differentiation
- Terms and conditions
  - Perils covered;
  - gross profit;
  - sub-limits

### Retention

- Can we retain more risk?
- What is our appetite?
- What is our tolerance?

### Declared values

- Are the reinstatement values sufficient?
- How much of your asset base is uninsured?

### Risk understanding

- Are you able to quantify your risks to your insured/uninsured assets?
- Do you understand both severity and frequency loss potentials?
- Is your cashflow/ balance sheet able to withstand these losses?
- What information do you need to make informed decisions?

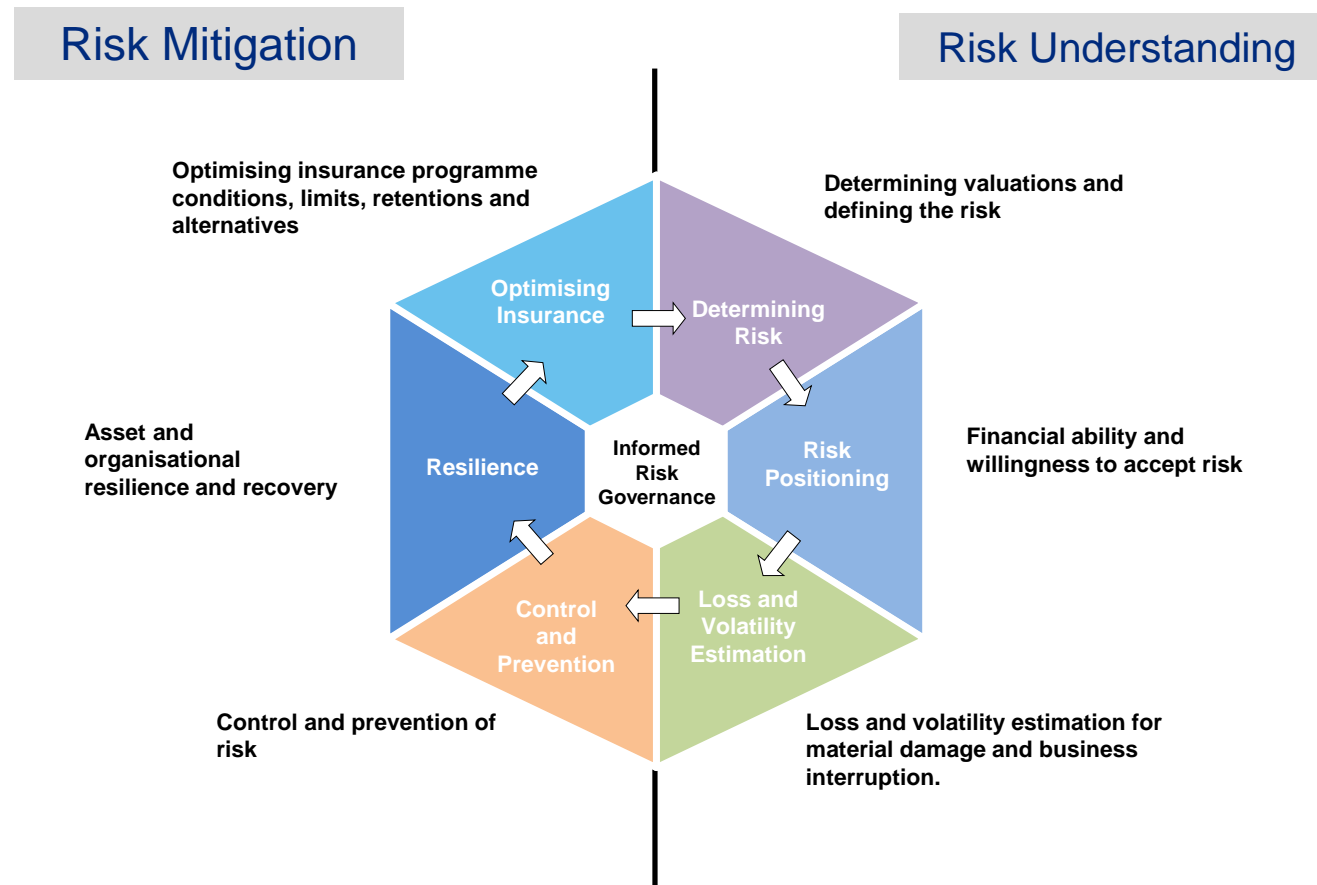
## INSURANCE SCHEDULES

- Basis of settlement options
  - **Replacement** - Should be the true Replacement cost of the asset including where applicable Inflationary provision and Demolition
  - **Functional Replacement** -The cost to replace the assets with a dissimilar asset that has the same actual functionality. Problem with this approach is partial loss
  - **Indemnity** - Depreciated value of asset taking into account it's age and condition.
  - **Demolition only** - Depreciated value of asset taking into account it's age and condition.

Information  
on schedule  
is what is  
paid in a  
claim



## RISK GOVERNANCE METHODOLOGY



Item 4



## Next Steps



**Review Material Damage assets**, and evaluate level of insurance required for each individual asset



**Undertake detailed cost benefit analysis** to determine ultimate exposure vs insurance, with value of additional work to evaluate appropriate loss limits, deductibles and total cover available.



**Investigate the impact of more frequent events**, i.e. floods, and how that would impact the retention levels.



**Investigate total potential damage from fire** to insured assets, to assess MPL for Fire Loss Limits on policy.



# Report to the Council on the audit of

Hastings District Council

For the year ended 30 June 2021



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## Key messages

We have completed the audit for the year ended 30 June 2021. This report sets out our findings from the audit and draws attention to areas where the Hastings District Council (the District Council) is doing well and where we have made recommendations for improvement.

### Audit opinion

We have issued a non-standard audit report dated 28 October 2021.

Our audit report included:

- An **unmodified opinion** on the financial statements, which means we were satisfied that the financial statements present fairly the District Council's activity for the year and its financial position at the end of the year.
- A **qualified opinion** on certain performance information relating to the Department of Internal Affairs (DIA) mandatory performance measures for water activities in relation to water supply, wastewater and stormwater.

The performance measures we qualified our opinion on are:

- Maintenance of the reticulation network – Water supply
- Total number of complaints received – Water supply, Wastewater and Stormwater
- Without further modifying our audit opinion, an **emphasis of matter** paragraph drawing the readers' attention to the disclosure in the annual report which outlines that subsequent to year-end the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.

### Areas of focus

We comment on the following key matters in the report:

- **Performance reporting – DIA three waters mandatory measures** – We identified issues with two performance measures in relation to water supply, wastewater and stormwater (as above). The performance measure on the Total number of complaints received was also qualified last year.
- **Covid-19 impact on annual reporting** – We are satisfied that the District Council has included appropriate disclosure about the impact of Covid-19 in the financial statements and performance information, and the Level 4 lockdown from August 2021 as a non-adjustable event.

- **Revalued assets** – We were satisfied with the robustness of the valuations undertaken this year by the District Council. The classes of assets revalued were land and buildings, roading and park assets.
- **Assets that are revalued but were not revalued this year** – We reviewed, and are satisfied with, the robustness of management’s assessments as to why there is no material difference between the fair value and the carrying value of these assets.

### Thank you

We would like to thank the Council, management and staff for their assistance in completing the audit, for their preparedness for the audit, and for their engagement with us.

*Karen Young*

Karen Young  
Appointed Auditor  
5 April 2022

## 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 recommended improvements.

Priority	Explanation
Urgent	<b>Needs to be addressed <i>urgently</i></b> These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.
Necessary	<b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b> 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.
Beneficial	<b>Address, <i>generally within six to 12 months</i></b> These recommendations relate to areas where the 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.

### 1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<b>Performance reporting – DIA three waters mandatory performance measures</b> The District Council address these performance reporting issues, and any possible impacts on the District Council's 2021/22 annual report.	4.1	Necessary
<b>Evidence of review on SQL reports</b> The District Council document the reviewers name and date of review on monthly SQL reports (time stamp/electronic signature).	5.1	Necessary

Recommendation	Reference	Priority
<b>Sensitive expenditure</b> To ensure appropriate review and oversight over sensitive expenditure, we recommend that the Mayor's sensitive expenditure transactions are provided to the Risk and Assurance Committee to review.	5.2	Beneficial

## 1.2 Status of previous recommendations

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

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	4	-	4
Implemented or closed	-	3	-	3
Matters that will be followed up during 2021/22 audit	-	3	-	3
<b>Total</b>	-	<b>10</b>	-	<b>10</b>

## 2 Our audit report

### 2.1 We issued a non-standard audit report



We issued our audit opinion on 28 October 2021.

We issued an unmodified opinion on the financial statements, which means we were satisfied that the financial statements present fairly the District Council's activity for the year end its financial position at the end of the year.

We issued a qualified opinion on certain performance information relating to the DIA mandatory measures for water activities relating to water supply, wastewater and stormwater.

The performance measures we qualified our opinion on are:

- Maintenance of the reticulation network – Water supply
- Total number of complaints received – Water supply, Wastewater and Stormwater

Without further modifying our audit opinion, an emphasis of matter paragraph drawing the readers' attention to the disclosure in the annual report which outlines that subsequent to year end the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024. The inclusion of this paragraph is in line with the Auditor-General's expectations across 30 June 2021 local council audits.

In forming our audit opinion, we considered the following matters. Refer to sections three to five for further detail on these matters.

### 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. There were no significant misstatements identified during the audit that required correcting.

### 2.3 Corrected misstatements

We identified misstatements that were corrected by management. These corrected misstatements had the net effect of decreasing expenditure by \$602,370 and increasing liabilities by the same amount. The corrected misstatements are listed in Appendix 2.

## 2.4 Quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the District Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management through AuditDashboard. This included the dates we required the information to be provided to us.

AuditDashboard was used during the 2020/21 audit for the first time. This worked well for both the District Council and us.

District Council staff provided us with the documents and information requested on a timely basis and by agreed date, and used AuditDashboard, our online portal to transfer files between the District Council and Audit New Zealand. This allowed the audit to proceed more efficiently and reduced the level of interruption to District Council staff.

We have noted the increased capacity in the Finance Team – this made a positive difference.

We were able to work collaboratively with District Council, management and staff, and acknowledge their assistance, willingness to help and professionalism throughout the year.

### 3 Assessment of internal control

The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

#### 3.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of the Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

We consider that a culture of honesty and ethical behaviour has been created. The elements of the control environment provide an appropriate foundation for other components of internal control.

#### 3.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

In performing this assessment we consider both the “design effectiveness” and “operational effectiveness” of internal control. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.



## 4 Matters raised in the Audit Plan



In our Audit Plan of 18 August 2021, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
<b>4.1 Performance reporting – DIA three waters mandatory performance measures</b>	
<p>In previous years, we have made recommendations to improve systems and processes for reporting against the DIA mandatory performance measures.</p> <p>To ensure the integrity and efficiency of reporting, the District Council should ensure:</p> <ul style="list-style-type: none"> <li>• there is a clear understanding of what the measure is intended to measure;</li> <li>• that it has the appropriate systems, processes and controls in place to accurately report and collate the data; and</li> <li>• consider what level of verification or independent review/quality assurance is appropriate.</li> </ul>	<p>We found significant issues with two of the DIA three waters mandatory performance measures:</p> <p><b>1 Total number of complaints received – Water supply, Wastewater, and Stormwater</b></p> <p>As in the previous year, the District Council was unable to accurately report the number of complaints for each of the three water services. Complete records of all complaints were not available, and the complaints system used also did not classify complaints between water supply, wastewater and stormwater.</p> <p>Refer to Appendix 1, Tables 1 and 3 also for follow up of prior year recommendation on complaints recording and classification.</p> <p><b>2 Maintenance of the reticulation network – Water supply</b></p> <p>The District Council was unable to report a reliable water loss percentage. This is because the water loss percentage is estimated using information obtained from water meters across the reticulation network. The limited number of water meters across the District Council's reticulation network significantly impacts the reliability of the results.</p> <p><b>Conclusion</b></p> <p>As a result of the issues, a qualified audit opinion was issued over the reliability of the information.</p> <p><b>We recommend</b> that the District Council address these performance reporting issues, and any possible impacts on the District Council's 2021/22 annual report.</p>

Audit risk/issue	Outcome
	<p><b>Management comment</b></p> <p>1     <i>In August 2020 Council implemented internal processes to record total number of complaints. We will review this process internally and continue to work with Palmerston North City Council to ensure that all after hour calls are being recorded accurately.</i></p> <p>2     <i>We will be expanding the sample size for the water loss percentage measure tenfold with the installation of 2000 smart meters currently on order from Germany. We expect to have these in place by the end of 2022 which will increase the reliability of the water loss percentage result significantly.</i></p> <p><i>However, given these meters won't be in place by the end of the 2021/22 financial period, we are also exploring other acceptable methodologies for this measure to ascertain if we can reliably measure the water loss of the reticulation network until we have sufficient water meters in place.</i></p>
<b>4.2 The risk of management override of internal controls</b>	
<p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud.</p>	<p>To reduce the risk of material misstatement due to fraud to an acceptable level we completed the following audit work:</p> <ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>• Reviewed accounting estimates for biases and evaluated whether the circumstances producing bias, if any, represent a risk of material misstatement due to fraud.</li> <li>• Tested the property, plant and equipment fair value assessments (including key assumptions and estimates) and management's conclusions were appropriate.</li> <li>• Maintained awareness of any significant transactions that were outside the normal</li> </ul>

Audit risk/issue	Outcome
	<p>course of business, or that otherwise appear to be unusual given our understanding of the District Council and its environment, and other information obtained during the audit.</p> <p><b>Conclusion</b></p> <p>From our testing we did not identify any issues that indicated management override of internal controls.</p>
<b>4.3 Revaluation of land and buildings, roading, and parks</b>	
<p>Public sector accounting standards require that revaluations be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The District Council's policy is to revalue its assets every two years.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>assessed the valuation process, including the competence and experience of the person completing the valuation. The assets are revalued by an external independent valuer;</li> <li>reviewed the valuation report to assess whether the requirements of PBE IPAS 17 <i>Property, Plant and Equipment</i> (including the appropriateness of the valuation basis) have been met;</li> <li>ensured changes to useful lives had been appropriately taken up, and values and depreciation charges had been appropriately accounted for;</li> <li>determined how unit rates for replacement costs had been determined. We confirmed the reasonableness of a sample of unit costs by reference to recent capital works undertaken by the District Council; and</li> <li>assessed the accounting entries, presentation and disclosure of information related to the valuation in the financial statements.</li> </ul> <p>As part of the process, we:</p> <ul style="list-style-type: none"> <li>enquired into the processes employed by the Council to ensure that the items revalued were complete, and any items excluded from the revaluation and reason for this;</li> </ul>

Audit risk/issue	Outcome
	<ul style="list-style-type: none"> <li>reviewed how the Council satisfied itself that the revaluation was appropriate; and</li> <li>discussed the results with, and obtained an assurance letter from, the independent reviewer.</li> </ul> <p><b>Conclusion</b></p> <p>We were satisfied with the robustness of the valuations undertaken this year by the Council.</p>
<b>4.4 Fair value of three waters infrastructure</b>	
<p>The fair value of property, plant and equipment assets measured at fair value needs to be assessed at each reporting date to see if there has been a material movement in value. If there has been a material movement, then a revaluation of the relevant asset class is required. If the fair value movement is not material then a revaluation of that asset class is not required this year. When the fair value of a revalued asset differs materially from its carrying amount, a full revaluation of the asset class becomes necessary.</p> <p>Fair value assessment of the following asset classes were required this year:</p> <ul style="list-style-type: none"> <li>Three waters (every two years) – next revaluation June 2022.</li> <li>Heritage assets (every five years) – next revaluation June 2023.</li> </ul>	<p>The Council performed an internal fair value assessment based on the June 2020 valuation and the CPI index in the current year.</p> <p><b>Conclusion</b></p> <p>We were satisfied with the robustness of the fair value assessments undertaken this year by the Council.</p>
<b>4.5 Water supply</b>	
<p>As a result of the Havelock North Water Inquiry the District Council has significant work that will be required to be done on its water infrastructure to ensure the safety and security of its water supply.</p> <p>The District Council has completed work on its water strategy and this was used to inform the development of the 2018-28 LTP.</p> <p>There are projects that the District Council is undertaking in the 30 June 2021 year as outlined in the 2018-28 LTP.</p>	<p>We ensured that the expenditure in relation to the water supply is appropriately classified as capital and operating expenditure.</p> <p><b>Conclusion</b></p> <p>Based on our work water supply expenditure is appropriately accounted for in the financial statements.</p>

Audit risk/issue	Outcome
<b>4.6 Impact of three waters reform</b>	
<p>The three waters reform programme is one of the most significant policy programmes affecting local authorities. This is a three-year programme of work in three tranches.</p> <p>During 2020/21, the District Council signed a non-binding Memorandum of Understanding (MOU) with the Crown. By signing this MOU, the District Council agreed to participate in the exploration of future service delivery options for the three waters services and to collaborate with agencies involved in the reform.</p> <p>On signing of the MOU, the District Council subsequently received a share of \$761 million Crown stimulus funding, which was the first tranche of funding that was provided under the reform programme. It is important that the District Council is appropriately accounting for its share of the funding and is meeting the obligations of the funding agreement.</p> <p>Much of the policy is still to be developed, with significant announcements about the form of future water services entities expected in year one (1) of the 2021-31 long-term plan (LTP) period (2021/22). The District Council will then need to decide whether to opt out of the proposed new service delivery model. There is still considerable information to come as to what these reforms may mean for the District Council before this decision will be made.</p> <p>We expected the District Council has taken steps to:</p> <ul style="list-style-type: none"> <li>consider the implications of any government announcements about three waters reform up to the date of authorisation of the financial statements. This includes the impact on financial statements and disclosures, including subsequent events disclosures; and</li> </ul>	<p>The District Council included as a subsequent event, the Government announcement on 27 October 2022, that it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.</p> <p>We gained an understanding of the water stimulus funding agreement entered into by the District Council. We reviewed the treatment of the revenue to ensure that was in line with accounting standards.</p> <p><b>Conclusion</b></p> <p>We concluded the Government's announcement was appropriately disclosed in the financial statements.</p> <p>We concluded that the stimulus funding was appropriately accounted for in the financial statements.</p>

Audit risk/issue	Outcome
<ul style="list-style-type: none"> <li>ensure any crown stimulus funding resulting from the three waters reform programme received by the District Council has been appropriately accounted for in accordance with PBE accounting standards and the terms of the agreement.</li> </ul>	
<b>4.7 Carry forwards of capital expenditure from 2021 to 2022 and implication on service levels</b>	
<p>Carry forwards can impact on Council's ability to deliver levels of service as committed through the LTP process. They can also cause cost escalation issues for Council's if projects are not completed in a timely manner and have an impact on Council's financial forecasting.</p> <p>Council took \$30.3m worth of carry forwards from the 2019/20 financial period into 2020/2021. These mostly relate to capital projects in the water, landfill and the Municipal Building.</p>	<p>At the end of this year Council are taking \$52m forward into the 2020/21 year. The increase was due to Covid-19 resulting in delays and limiting resources. The level of service is not affected by the level of carry forwards.</p> <p>This is an area that we will continue to monitor.</p> <p><b>Conclusion</b></p> <p>There are no impacts from the carry forwards on the ability of the Council to deliver to their service levels.</p>
<b>4.8 Covid-19 implications on public sector reporting</b>	
<p>The long-term impact of Covid-19 in New Zealand, and how it might affect public entities, is unknown. However, aspects of the District Council's operations continue to be impacted by Covid-19.</p> <p>These business risks may also have an impact for the financial statements and performance information, and public sector reporting and therefore an audit risk and impact.</p>	<p>Covid-19 continued to have an impact on the Council during the year.</p> <p><b>Conclusion</b></p> <p>We are satisfied that the District Council has included appropriate disclosure about the impact of Covid-19 in the financial statements and performance information, and the Level 4 lockdown from August 2021 as a non-adjustable event.</p>

## 5 Matters identified during the audit



During the audit we identified the following matters

### 5.1 Evidence of review on SQL reports

During expenditure controls testing, we understand that the monthly SQL reports are independently reviewed, however the review, and when the review occurred is not evidenced.

The District Council advised that this was due to a change from completing the review on hardcopy to softcopy, with the review performed remotely due to working from home during Covid-19 lockdown.

When systems, processes and controls are altered to take into account the changing work environment, it is important that controls are evidenced.

**We recommend** That the District Council document the reviewers name and date of review on monthly SQL reports (time stamp/electronic signature).

#### Management comment

*We will review this and ensure independent review is evidenced appropriately.*

### 5.2 Sensitive expenditure

The Mayor is the governing body in the organisation.

To ensure appropriate review and oversight over sensitive expenditure, **we recommend** that the Mayor's sensitive expenditure transactions are provided to the Risk and Assurance Committee to review.

#### Management comment

*We have included in our updated draft Sensitive Expenditure Policy that notes the Mayor's sensitive expenditure transactions will be provided to the Risk and Assurance Chair for review on at least a quarterly basis. Note that this draft policy has yet to be approved by the Lead Team and Chief Executive.*

## 6 Public sector audit



The District 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 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 the 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 District Council carrying out its activities effectively and efficiently;
- the District Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the 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.

There were no items noted during our audit that we need to bring to your attention.



## 7 Group audit



The group comprises:

- Hastings District Council
- Hastings District Council Holdings (and its subsidiaries)
- Te Mata Park Trust Board
- Hawke's Bay Regional Sports Park Trust\*

*\*Due to the shortage of auditors, this audit for the year ended 30 June 2021 have been deferred to March 2022*

We have not identified any of the following during our audit for the year ended 30 June 2021:

- Instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work.
- 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.

## Appendix 1: Status of previous recommendations

Table 1: Open recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Customer complaints – recording of every such complaint</b> <p>To comply with DIA guidance, the Council record every such complaint in the system and formalised its internal procedural guidance.</p>	2019/20	<b>In progress</b> <p>Part way through 2020/21, the District Council put procedures in place to ensure every such complaint is recorded by the call centre.</p> <p>For calls after hours, the District Council uses PNCC. <b>We recommend</b> that the District Council continue discussions with PNCC to understand the plans in place to address the performance reporting issue.</p> <p>We have noted that a local government working group is working with DIA on reviewing the guidance on the measures. The review is in progress.</p> <p><b>Management comment</b>  <i>We will continue discussions with PNCC to ensure after hour calls are recorded correctly.</i></p>
<b>Sensitive expenditure policy review and update</b> <p>The District Council update its sensitive expenditure policy for current accepted good practice in the public sector.</p>	2019/20	<b>In progress</b> <p>The sensitive expenditure policy has been reviewed and the new policy is expected to be approved in April 2022.</p> <p><b>Management comment</b>  <i>The sensitive expenditure policy has been reviewed and will be approved by Lead Team in April 2022</i></p>
<b>Useful lives of assets</b> <p>A secondary review of the base useful life inputs should be implemented to ensure that the maximum useful life is not breached for any assets.</p>	2019/20	<b>Outstanding</b> <p>No change.</p> <p><b>Management comment</b>  <i>The effect on annual depreciation for these three assets is so minor that we have not changed their useful lives yet.</i></p>

Recommendation	First raised	Status
<b>Necessary</b>		
		<i>During the next water valuation (2022) we will put checks in place to ensure that none of the useful lives are greater than the max (and update the above assets to reflect correct useful lives).</i>
<b>Contract management system</b> The District Council implements a single organisation wide contract management system.	2016/17	<b>In progress</b> A contract management system has been purchased and will be implemented during 2022.

**Table 2: Audit New Zealand to follow up during 2020/21 audit**

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Rates reconciliation</b> A reconciliation be completed between what has been struck, collected, outstanding, paid in advance and any other adjustments.	2019/20	<b>Audit New Zealand to follow up during 2021/22 audit</b> The District Council has put in place monthly reconciliation between Proclaim (rates system) and the GL – this is through the rates debtors and rates in advance balance sheet reconciliation. A check on rates in advance has been implemented.
<b>Rates Assessment Notice legislative compliance</b> The description of the “Factor” be included as a separate column to the “Value of factor”, to ensure sufficient information is given over the Factor of the Rate and meet legislative requirements.	2018/19	<b>Audit New Zealand to follow up during 2021/22 audit</b> We will look at the rates assessment notice during our next audit.

**Table 3: Implemented or closed recommendations**

Recommendation	First raised	Status
<b>Customer complaints – classification</b> The review process is strengthened to ensure the quality and accuracy of information going into the system.	2019/20	<b>Implemented and closed</b> The call centre now categorises all calls into either water supply, stormwater or sewer. The call centre has also been categorising whether the call is a complaint/request for service (RFS), or a general information query. The contractor is expected to update the RFS if the category is incorrect on inspection of the job.
<b>Use of Purchase Card (P-Card)</b> P-Card only be used for purchases allowed for in the P-Card Policy, i.e. the P-Card Policy be followed.	2019/20	<b>Closed</b> No issues identified during testing of P-Card transactions.
<b>Rates masterfile change report review</b> We recommend that: <ul style="list-style-type: none"> <li>a Rates Masterfile Change report is reviewed on a regular basis to ensure all changes to individual rating units are appropriate and for justifiable business purposes; and</li> <li>this review is prepared and independently reviewed on a one-up basis with appropriate documentation completed to evidence this (i.e. signed and dated by preparer and reviewer).</li> </ul>	2018/19	<b>Implemented and closed</b> Rates Masterfile Report is reviewed quarterly, signed and dated as reviewed on hardcopies.
<b>Improvements to financial systems and processes following Opal Taylor fraud</b> Following the Opal Taylor fraud, the District Council continues to refine its systems and processes to ensure that remaining internal and external audit recommendations are addressed.	2016/17	<b>Implemented</b> Council implemented an electronic purchase order (PO) system, “Ci Anywhere”. Now there is a system control where POs must be approved by a staff member with appropriate level of financial delegation before they can be released to the supplier. This PO system operates as described during the expenditure walkthrough we carried out.

Recommendation	First raised	Status
		Automated controls will be tested during our 2021/22 audit to ensure effectiveness.

## Appendix 2: Misstatements

Table 1: Uncorrected misstatements

Current year misstatements	Ref.	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Accrual	1	-	(326,664)	-	-
Prepayment		326,664			
Other current liabilities	2	-	1,499,456	-	-
Revenue received in advance		-	(1,499,456)		
Other current liabilities	3	-	602,370	-	
Employee entitlements		-	-	-	(602,370)
<b>Total parent</b>		<b>326,664</b>	<b>275,706</b>		<b>(602,370)</b>

### Explanation of uncorrected misstatements

- To reclass prepaid insurance from liabilities to assets.
- To reclass Account 7444 connections and grant revenue received in advance within current liabilities to revenue in advance.
- Salary accrual at year end was doubled up – this is to remove one of the entries.

Table 2: Corrected disclosure deficiencies

Detail of disclosure deficiency
Capital commitments needed to be restated to ensure that they matched the underlying records for the projects included in that balance.
Various disclosures in relation to remuneration and the remuneration bands needed to be updated.
Changes made to correct current and non-current borrowing classification.
Changes required to the cash flow statement to ensure that the figures included for sales of assets were materially correct.
There were various other disclosures in the annual report that needed to be updated.

**Table 3: Corrected performance reporting misstatements**

Detail of misstatement
Various performance measures needed to be updated to match the supporting documentation that Council had for them.

## Appendix 3: Mandatory 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 all 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 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: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit and the report on the disclosure requirements, we have:</p> <ul style="list-style-type: none"> <li>audited the District Council's 2021-2031 Long-term plan; and</li> <li>carried out a limited assurance engagement related to the District Council's debenture trust deed.</li> </ul> <p>These engagements are compatible with those independence requirements.</p> <p>Other than 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 \$125,018, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are:</p> <ul style="list-style-type: none"> <li>2021- 2031 Long-term plan: \$76,600; and</li> <li>Debenture Trust Deed: \$4,950.</li> </ul>
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>



Area	Key messages
	<p>The Audit Manager on the audit has not undertaken any work related to the internal auditors (as her sister is a Findex (Crowe) employee). The audit supervisor has reported directly to the Appointed Auditor on any of our work relating to internal audit.</p> <p>A staff member of Audit New Zealand accepted a position of employment with the District Council during the year. The staff member was not involved in the audit of the District Council.</p>

## Appendix 4: Useful publications



Based on our knowledge of the Council, we have set out below some publications that the Mayor, Councillors, members of the Audit and Risk Committee and management may find useful.

Description	Where to find it
<b>Consulting matters: Observations on the 2021-31 consultation documents</b>	
<p>This report provides our observations on the 2021-31 long-term plan consultation documents. Councils, as a whole, have realistically confronted the challenges they face and, for the most part, produced clear consultation documents. This is no small achievement at the best of times. In the middle of a pandemic and in a sector focused on significant reforms, this is even more significant.</p> <p>Areas covered:</p> <ul style="list-style-type: none"> <li>Preparing long-term plans in a challenging environment.</li> <li>The audit reports we issued on the consultation documents.</li> <li>Engaging effectively with communities.</li> <li>The types of issues councils consulted on in the 2021-31 consultation documents.</li> </ul>	<p>On OAG's website under 2021 publications</p> <p>Link: <a href="https://www.oag.parliament.nz/publications/summary-of-consulting-matters-our-observations-on-the-2021-31">Summary of Consulting matters: Our observations on the 2021-31</a> (<a href="https://www.oag.parliament.nz">oag.parliament.nz</a>)</p>
<b>Local government risk management practices</b>	
<p>The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management.</p>	<p>On OAG's website under 2021 publications</p> <p>Link: <a href="#">risk management practices</a></p>
<b>Managing conflicts of interest involving council employees</b>	
<p>This article discusses findings across four councils on how conflicts of interest of council employees, including the Chief Executive and staff, are managed.</p>	<p>On OAG's website under 2021 publications.</p> <p>Link: <a href="#">council employees</a></p>
<b>The Auditor-General's report on the results of recent audits of local government</b>	
<p>The OAG publishes a report on the results of each cycle of annual audits for the sector.</p>	<p>On the OAG's website under publications.</p> <p>Link: <a href="#">2019/20 audits</a></p>

Description	Where to find it
<b>What good looks like: Lessons for public organisations</b>	
<p>A presentation to our central government Audit and Risk Committee Chairs' Forum.</p> <p>The presentation contained important findings from our recent work, including our performance audits, inquiries, and good practice guidance. We also highlighted areas that we will be focusing on over the next six months, including our Covid-19-related work.</p>	<p>On OAG's website under 2021 publications</p> <p>Link: <a href="#">what-good-looks-like</a></p>
<b>The problems, progress, and potential of performance reporting</b>	
<p>Performance reporting is a fundamental part of providing effective public accountability.</p> <p>This discussion paper explores five areas for improvement:</p> <ul style="list-style-type: none"> <li>ensuring that performance information is focused on the issues that matter to New Zealanders;</li> <li>ensuring that performance information is tailored to different audiences to make it more accessible;</li> <li>better integrating and aligning performance information so it is clear how the activities of public organisations contribute to outcomes;</li> <li>improving monitoring and scrutiny of the performance information that is produced to encourage continuous improvement; and</li> <li>building demand for good quality performance information, strengthening system leadership, and investing in the capability to do it well.</li> </ul>	<p>On OAG's website under 2021 publications</p> <p>Link: <a href="#">performance-reporting</a></p>
<b>Building a stronger public accountability system for New Zealanders</b>	
<p>Public accountability is about public organisations demonstrating to Parliament and the public their competence, reliability, and honesty in their use of public money and other public resources.</p> <p>This discussion paper looks at how well New Zealand's public accountability system is working in practice.</p>	<p>On OAG's website under 2021 publications</p> <p>Link: <a href="#">public-accountability</a></p>
<b>The Government's preparedness to implement the sustainable development goals</b>	
<p>In 2015, all United Nations members signed up to Transforming our world: the 2030 Agenda for Sustainable Development (the 2030 Agenda). It sets out 17 sustainable development goals to be achieved by 2030.</p> <p>We looked at what arrangements are in place and how the Government is encouraging stakeholders and the public to engage with efforts to achieve the sustainable development goals by 2030.</p>	<p>On OAG's website under 2021 publications</p> <p>Link: <a href="#">sdgs</a></p>

Description	Where to find it
<b>Client updates</b>	
<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.</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>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client updates</a></p>
<b>Procurement</b>	
<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>On the OAG's website under publications.</p> <p>Links:</p> <p><a href="#">Strategic suppliers: Understanding and managing the risks of service disruption</a></p> <p><a href="#">Getting the best from panels of suppliers</a></p> <p><a href="#">Local government procurement</a></p>
<b>Good practice</b>	
<p>The OAG has made it easier to find good practice guidance, including 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.</p> <p>Link: <a href="#">Good practice</a></p>

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