

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

Date: Wednesday 27 June 2012
Time: 3.00 pm or at conclusion of Corporate Services
Meeting Room: Tasman Council Chamber
Venue: 189 Queen Street
Richmond

Audit Subcommittee

AGENDA

MEMBERSHIP

Chairperson	Cr G A Glover
Members	Mayor R G Kempthorne
	Cr T B King
	Cr M L Bouillir
	Cr J L Inglis
	Cr C M Maling
	Cr T E Norriss

(Quorum 2 members)

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AGENDA

- 1 OPENING, WELCOME**
- 2 APOLOGIES AND LEAVE OF ABSENCE**

Recommendation
THAT apologies be accepted.

- 3 DECLARATIONS OF INTEREST**
- 4 CONFIRMATION OF MINUTES**

Recommendation
THAT the minutes of the Audit Subcommittee meeting held on 29 September 2011 be confirmed as a true and complete record.

5 PRESENTATIONS

Nil

6 REPORTS

- 6.1 June 2011 Final Audit Management Letter Report 5

7 REPORTS OF COMMITTEE

Nil

8 CONFIDENTIAL SESSION

- 8.1 Procedural motion to exclude the public..... 25
8.1 Audit Arrangement Letter 2012 25

6 REPORTS

6.1 JUNE 2011 FINAL AUDIT MANAGEMENT LETTER REPORT

Decision Required

Report To: Audit Subcommittee
Meeting Date: 27 June 2012
Report Author: Murray Staite, Corporate Services Manager
File Reference: C761

REPORT SUMMARY

EXECUTIVE SUMMARY

This report considers the contents of the 2011 Final Audit management letter and notes that an unmodified audit opinion was received for the 2011 year and in the view of Council's Auditors Council is performing well in a number of areas.

RECOMMENDATION/S

That the draft resolution be confirmed.

DRAFT RESOLUTION

THAT the Audit Subcommittee receives the final 2011 Audit Management Report.

6.1 JUNE 2011 FINAL AUDIT MANAGEMENT LETTER REPORT

Decision Required

Report To:	Audit Subcommittee
Meeting Date:	27 June 2012
Report Author:	Murray Staite, Corporate Services Manager
File Reference:	C761

1 PURPOSE

- 1.1 To consider the contents of the Audit Management Letter for the year ended June 2011.

2 BACKGROUND/DISCUSSION

- 2.1 The interim 2011 Audit management report was received by this Subcommittee at its August 2011 meeting.
- 2.2 At the end of the audit process a final audit management report is provided to report on management issues raised during the audit process.
- 2.3 The key messages from the management report are contained on Page 3 of the report which is attached for members' consideration.
- 2.4 Of particular note is the statement from Council's Auditors that "there were few items of concern arising from the audit and we consider that Council is performing well in a number of areas".

3 RECOMMENDATION/S

That the draft resolution be confirmed.

4 DRAFT RESOLUTION

THAT the Audit Subcommittee receives the final 2011 Audit Management Report.

Appendices

- 1. Audit Management Report 7

Report to the Council on the audit of
Tasman District Council
for the year ended 30 June 2011

Management report

Audit New Zealand has 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 reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Our audit has been carried out in accordance with the Auditor-General's auditing standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity, or inefficiency that is not material to your financial statements.

Implementing and maintaining systems of internal control for detecting these matters remains the responsibility of the Council and management.

Statement of auditor independence

We confirm that, for the audit of the Tasman District Council's financial statements for the year ended 30 June 2011, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, and in carrying out the audit of an amendment to the long-term council community plan (LTCCP), we have no relationship with or interests in the District Council.

Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

Other relationships

We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with Tasman District Council that is significant to the audit.

We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with Tasman District Council during or since the end of the financial year.



Scott Tobin
Audit Director
1 December 2011

Report to the Council

for the audit for the year ended 30 June 2011.

We have completed the audit for the year ended 30 June 2011. This report sets out our findings from the audit and draws attention to areas where Tasman District Council (the Council) is doing well or where we have made recommendations for improvement. This report needs to be read along with our interim management report issued to Council on 8 August 2011.

Contents

Key messages	2
Section A: Significant risks and issues	3
1 Our audit opinion	3
2 Accounting and operational issues.....	3
Section B: Other matters	9
3 Sector matters	9
Appendices	12
Appendix 1: Status of recommendations made last year.....	13
Appendix 2: Details of reviews on behalf of the Auditor-General	15

Key messages

We have summarised the key messages arising from the audit below. Full details on these areas are included in the main body of the report:

- We issued an unmodified audit opinion on Council's annual report on 27 October 2011.
- Overall, there were few items of concern arising from the audit and we consider that Council is performing well in a number of areas.
- Council suffered damages and disruptions from the Aorere River flood over the Christmas period. We reviewed Council's accounting treatment for flood damaged assets, insurance claim and repair costs. We were satisfied that the accounting treatment was appropriate and complies with General Accepted Accounting Practice (GAAP), and Council has made sufficient disclosure around this event.
- Council established a debenture trust during the year. We audited the reporting certificate with no issues noted.
- Council is progressing very well with the development of its 2012/22 LTP.

Thank you

We would like to thank the Council and management for the cooperation and assistance provided to us during the audit.

Section A: Significant risks and issues

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

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

1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 27 October 2011. This means that we were satisfied that the financial statements and statement of service performance fairly reflected the Council's activity for the year and its financial position at the end of the year.

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

In forming our audit opinion, we considered the following matters.

2 Accounting and operational issues

2.1 Summary of result

The Council reported the total comprehensive income of \$11.1m with a net surplus from operations of \$9.4m. The majority of this surplus relates to the \$9.9m vested assets Council received during the year. Council made a small deficit of \$0.5m after taking out vested assets.

Council continues to have negative working capital. This is mainly due to the \$37.5m loan from Westpac being classified as current debt due to the facility expiring within 12 months of balance date. We understand that Council will renegotiate the facility when it expires and is not intending to repay the loan.

2.2 Aorere river flood

Severe flooding occurred over the Christmas/New Year period in the Tasman district causing damage to river protection works, bridges and other roading infrastructure. We reviewed Council's accounting treatment of damaged assets and insurance proceeds and disclosure around the flood event.

2.2.1 Asset disposal and impairment

Council recognised a \$126,000 loss on disposal and \$650,000 asset impairment in relation to flood damaged assets. The major asset damages from the flood related to two of Council's bridges and some river protection rocks that were washed away.

The bridges were old and only had a \$126,000 book value. This amount was correctly treated as an asset disposal.

Council assessed impairment of its river protection assets and estimated that approximately 30% of the rock protection assets in the Aorere River were washed away in the flood. Based on this estimation, Council recognised a \$650,000 impairment for its river assets. The impairment was made against the river asset revaluation reserve. We considered this treatment as appropriate and consistent with GAAP.

2.2.2 Insurance proceeds

Council is entitled to receive 60% subsidy from the Ministry of Civil Defence and Emergency Management (MCDEM) on qualifying expenditure related to the flood event. We understand MCDEM have surveyed all sites with MWH and assessed the cost of repair work at \$2.2m in total.

Council lodged a claim of \$383,000 for repair work done to 30 June 2011. This claim has been approved by MCDEM, and we confirmed that Council correct recognised the amount as revenue in the 2010/11 financial year. The remaining portion has been disclosed as a contingent asset due to uncertainty around the value.

2.2.3 Accounting treatment for repair work

Council spent \$638,000 on repair work up to 30 June 2011. This amount was initially recognised as an expense. After reviewing the nature of work performed, some items appeared to be capital in nature. Council subsequently recognised an additional \$330,000 of river asset additions.

Overall, we were satisfied that the accounting treatment and disclosure around the flood event were appropriate and consistent with GAAP.

2.3 Council borrowings

2.3.1 Debt levels

As at 30 June 2011, Council had current borrowing of \$50m and non current borrowing of \$90m. As mentioned before, the significant current borrowing is due to the Westpac borrowing facility expiring within 12 months of balance date. The current and term split will change once new borrowing facilities are renegotiated.

Council's total debt level has increased by \$24m (20%) from last year. We understand that the debt level will increase further in the 2012/22 LTP. This is an area we will review closely.

2.3.2 Local government funding agency

Council is going to participate in the Local Government Funding Agency (LGFA) scheme. The LGFA is proposed by 9 Councils around New Zealand aimed to allow participating councils to source funding at lower margins than they currently do. Council estimates it will achieve an interest rate saving of 0.4% to 0.5% per annum with an estimated equity contribution of \$1.4m to \$2.3m to the LGFA.

Based on Council's current debt level (\$130m), we understand that Council expect to have an annual saving of approximately \$250,000 by participating in the scheme assuming 50% of Council's debt to be funded by the scheme. The debt level is projected to reach \$269m by 2019.

We will obtain assurance that the impact of Council's participation in the scheme has been correctly reflected in the 2012/22 LTP.

2.3.3 Debenture trust

Council established a debenture trust during the year. We have audited the reporting certificate as a separate audit engagement.

We issued an audit report for the debenture trust audit with no findings.

2.4 Property Plant and Equipment

We reviewed the Council's assessment of whether there is any significant difference between the carrying amount and fair value of its property, plant and equipment. We concurred with Council's assessment that the relevant indices had not moved sufficiently to give rise to a material difference in value compared to when these assets were last valued. As a result valuations of the utility (water, wastewater etc) and river protection assets were not required for the year ended 30 June 2011.

We noted the following issues during our review of the Council's property, plant and equipment.

2.4.1 Disposal of assets

Council disposed of some infrastructural assets during the year totalling \$613,000 for stormwater, wastewater and water assets. These assets were last revalued in 2009. Council was unable to track the related asset revaluation reserve component for these disposed assets as Council record asset revaluation at a class level rather than an individual asset level.

The fixed asset accountant estimated that 40% of the book value on disposal may be from asset revaluations. The result of this is that the asset revaluation reserve has been overstated and general fund have been understated by \$245,000.

We accepted this based on materiality. However, management may need to review how infrastructural assets are recorded after revaluations to ensure the asset revaluation reserve component of disposed assets can be identified and correctly treated going forward.

Management comment

The comment is noted. Council will identify the asset revaluation reserve component of any asset disposed of, and treat accordingly.

2.4.2 Capitalisation of costs

Council is currently undertaking design and public consultation work on two significant capital projects – Takaka wastewater treatment plant upgrade and Lower Motueka Stopbank upgrade. These initial costs have been capitalised. We understand that Council capitalised these costs based on the argument that these projects will go ahead as the ‘do nothing’ option is not valid.

We considered this treatment as inappropriate. The consultation costs should be expenses as they do not add any value to the asset itself. The design costs are appropriate to be capitalised until superseded by another design.

We accepted this treatment this year based on materiality. However, we recommend management to expense the community consultation costs of large capital projects, and review capitalised design costs to ensure only the cost of ‘final’ design is capitalised.

Management comment

Council will review cost allocations of major projects, to capture and expense consultation costs.

2.5 Asset Management Plans

Asset management plans (AMPs) play an integral part in the maintenance of Council’s significant infrastructural assets. These assets deliver most of the quality-of-life services that are critical to the community. During the 2009 LTCCP audit we reviewed the AMPs and provided feedback to Council.

We followed up on the issues raised during the review of the Council’s AMPs during the audit of the 2009/19 LTCCP and noted that Council are making good progress in addressing these issues. From discussions with Council’s LTP team AMPs have been further improved and are aligned to the 2012-22 LTCCP timetable.

We will follow up progress made by management in updating the AMPs during our LTP audit in 2011/12.

2.6 Weathertightness

Weathertight homes is a significant issue for many Councils around New Zealand. We reviewed the Council’s status, number of current claims and the adequacy of related disclosures in the financial statements.

The Council does not have a high degree of exposure to weather tightness claims. There are currently just six active claims lodged with WHRS. Council is still determining whether all of these claims are valid and given the small number of claims have not recognised any provision within the financial statements. Council disclosed its exposure to potential future claims as a contingent liability.

2.7 Emissions Trading Scheme

Council owns forestry assets but have not yet opted into the ETS scheme. We understand that a report was prepared for Council to consider entering the scheme but no decision was made prior to balance date. We will monitor the receipt of, and any subsequent transactions relating to, New Zealand Units once Council are part of the scheme.

2.8 NZTA Funding

We discussed the impact on the Council of a reduction in funding and its proposed response.

The release of the National Land Transport Programme (NLTP) had some impact on Council's roading budget. The following areas were mostly affected:

- Capping escalation - Year 1 escalation is set at 3% and for year 2 and 3 no escalation will be allowed for except under exceptional circumstances. This will reduce Council's maintenance allocation over time.
- Funding cut in Road Safety programme - there will be a slight reduction in the number of projects.
- Funding for the cycle and walking project has been moved to Category 2 - This means that before any funds are released for these projects they will need to be justified and probably ranked against other projects throughout the country. It is likely that these funds will migrate north like other funds.
- Council has been able to secure funding from NZTA for the Ruby Bay Bypass cycle/walk connection. This will allow Council to release some local share funds to other cycle projects.
- Nelson will not be carrying out the improvements for Public Transport as planned in the LTCCP due to the funding cut. As a result TDC's local share will be used to fund its own public transport programme and towards providing the cycle/walk facilities.

The overall financial impact from the NLTP was a reduction in budget of \$407,650 (1.55%). It was not significant enough for an LTCCP amendment, but is a factor for consideration in the 2012/22 LTP and include whether projects that can be afforded and impacts on service levels.

We also gained an understanding of the system for the preparation of NZTA returns, and tested the relevant controls. There were no issues identified.

2.9 Development contributions

As part of the audit we reviewed the Council's controls to ensure development contributions are charged in accordance with Council's development contribution policy and whether the use and application of funds received is appropriate and that they have been correctly accounted for.

Report to the Council on the audit of Tasman District Council
for the year ended 30 June 2011

Page 8

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

Section B: Other matters

Every year, we identify common sector matters that are considered as part of the audits of all Local Government. Our findings on these sector matters, other than those already covered earlier in this report, are discussed in this section.

We have provided management with a supplementary report that discusses our findings and recommendations about less significant and miscellaneous matters. We provide a brief overview of these matters here.

Please note that the status of each matter that was outstanding in last year's report to the Council is included in Appendix 1.

3 Sector matters

We completed reviews on our areas of interest across all Local Government. Most of our findings have been incorporated in the relevant sections of this report. Our comments on the issues not already addressed elsewhere are as follows:

3.1 Audit of Service Performance

We audited the reported service performance information in the Annual Report.

We focused on:

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

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

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

3.2 LTCCP amendments

We remained alert for possible amendments throughout the year, particularly during the preparation of the annual plan.

Council amended its LTCCP during the year to change the treasury management policy to enable participation in the proposed local government funding agency. We audited the amendment and issued an unmodified opinion on the amendment.

3.3 Council governance role in completion of Council Controlled Organisation (CCO) SOIs

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

We were satisfied that all Council's CCOs have appropriate SOIs in place. No issues were noted during our review.

3.4 Conflicts of interest

We remained alert for conflicts of interest in the course of our audit work.

We did not identify any instances of conflicts of interest.

We reviewed the Council's compliance with the Local Authorities (Members' Interests) Act 1968.

No issues were identified from our review.

3.5 Funding arrangements and procurement

We enquired into the Council's process of developing a procurement policy. We understand that this is still in progress. This is an issue raised in previous years and we suggest more attention in this area is required.

3.6 Elected members – remuneration and allowances

We reviewed the Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the Local Government Elected Members Determination.

No issues were identified from our review.

3.7 Risk management

Council has recommenced work in this area, picking up on initial work started in the 2010 financial year. We noted that a formal risk register has been set up. This register captures service delivery, social/cultural, environmental, and economic risks each council department faces. Risks are rated according to the seriousness of their consequences and the likelihood of happening. Risk treatment actions are determined for each risk identified, and residual risks are assessed and recorded in the risk register.

We understand that management is planning to select critical risks from the register and implement mitigation actions accordingly. We will maintain a watching brief as the mitigation plans are implemented and will provide updated comments on this as part of our final audit or the 2012 audit depending on progress with this.

3.8 Contract management

We enquired into Council's current contract management practice.

Council has a contract register for its significant contracts managed by MWH on Council's behalf. However, this contract register is not Council-wide and only covers a portion of Council's engineering contracts.

The contract register records the name of each contract and its starting and finishing dates. An overall contract register is a useful tool in ensuring all contracts are monitored closely and enables procurement planning to be undertaken well in advance of a contract expiring.

We recommend management consider extending the existing contract register to cover other Council areas.

Management comment

Council is developing a Council wide procurement policy which will also incorporate the current contract register.

4 Details of reviews on behalf of the Auditor-General

We completed the reviews required by the Auditor-General, as set in our audit arrangements letter, and cleared them with appropriate members of your management team. Appendix 2 sets out the results of the reviews. There are no issues that need to be brought to your attention.

Appendices

Appendix 1: Status of recommendations made last year

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

Appendix 1: Status of recommendations made last year

Outstanding/in progress matters

Matter	Recommendation	Outcome and status
Maintenance of interest register		
Councillors' interests are declared at council or committee meeting. These declarations are recorded in council minutes. However, these declarations are not always updated in council's formal interest register.	We recommended council update and maintain its interest register. This will assist with identifying previously declared interests and also for identifying and disclosing related party transactions within council's financial statements as required by relevant accounting standards.	Outstanding Council's formal interest register has not been updated. When it is updated it should also include the mitigating actions in relation to interests declared.
Cost allocation		
Council has historically allocated a portion of overhead costs to capital projects. This is based on a methodology adopted several years ago. There were some large balances being capitalised to the roading activity. It was unclear what the capital overhead costs were based on and therefore it was unclear whether they were directly attributable to the assets or not.	We recommended that council review their overhead allocation methodology in 2009/10 and consider using the job costing system to enable more accurate assessment for project management time.	In progress The same approach has been used during the year. Council staff explained that changing the overhead allocation method may have an impact on Council's rates. We were informed that council has revised its allocation for the 12/22 LTP. We will review this as part of our LTP audit work.
Purchase order authorisation		
There were limited controls over issuing purchase orders. The invoices are authorised by staff with delegated authority before payments are made, but purchase orders are not issued/authorised by staff with delegated authority.	We recommended that purchase orders be issued/authorised by staff members within delegated authority before they are sent to suppliers.	In progress Council has developed an electronic purchase order system, which enables purchase orders to be authorised before they are sent out. This system is currently being rolled out in different departments. We will review effectiveness of the new system in the next financial year when it is fully in use.
Funding of depreciation		
We comment on council's policy of not funding depreciation at an activity level, instead it is funded at an	No specific recommendation other than raising the issue of increasing levels of council debt and that we would maintain a	In progress There has been no change to council's policy of not funding

Matter	Recommendation	Outcome and status
income statement level. Long term this results in council having to fund major capital works by way of Public Debt.	watching brief over this.	depreciation. We understand that council is reviewing this approach in the 2012-22 LTP process.

Cleared matters

Matter	Recommendation	Outcome and status
Accounts receivable balances		
We noted considerable aging of a number of minor categories of debtors including parking infringements and dog and sundry infringements.	We recommended that these infringement type debtors be reviewed more regularly for collectability and where this is not considered likely, a provision for impairment or write off of these balances be made.	Minor categories of debtors were appropriately assessed for impairment in the annual report process.

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

Issue	Status/findings
Annual Report adoption and public release dates	<p>We have been asked to note the dates that the Council adopts its annual report, and makes the full and summary annual reports available to the public. This information has been forwarded to the Office of the Auditor-General (OAG).</p> <p>We found no issues.</p>
Local Authority exemptions for Council Controlled Organisations (CCOs)	<p>We were asked to advise the OAG on the Council's use of Section 7 of the Local Government Act 2002. Under section 7 of the LGA 2002, a local authority may exempt a "small" CCO from the accountability regime that applies to CCOs under that Act.</p> <p>We found no issues. Council exempted Port Golden Bay for 2010/11 financial year on 18/8/2011.</p>
Local Authorities emissions and measurement and reduction	<p>We were asked to gather information about the activities of local authorities in the area of emissions measurement and reduction.</p> <p>We found no issues.</p>

8 CONFIDENTIAL SESSION

8.1 Procedural motion to exclude the public

The following motion is submitted for consideration:

THAT the public be excluded from the following part(s) of the proceedings of this meeting. The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

8.1 Audit Arrangement Letter 2012

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.