

Chairperson and Subcommittee Members
AUDIT AND RISK SUBCOMMITTEE

19 SEPTEMBER 2013

Meeting Status: **Public**

Purpose of Report: For Information

CLOSING AUDIT REPORT AS AT 30 JUNE 2013

PURPOSE OF REPORT

- 1 This report provides the Committee with the closing Audit Report for the year ended 30 June 2013 prepared by Ernst & Young.

SIGNIFICANCE OF DECISION

- 2 The Council's Significance Policy is not triggered by this report.

BACKGROUND

- 3 Ernst & Young, Council's Auditors have almost completed the audit fieldwork in relation to the draft Annual Report to 30 June 2013. A Closing Audit report is attached as Appendix 1. It covers an overview of the audit process, significant accounting and audit matters and the Draft Audit Report.

CONSIDERATIONS

Audit Report

- 4 The Closing Audit Report covers the significant areas of audit focus for the 2012/13 year. Included in the audit coverage is the review of Council's rates strike for the 2012/13 year rates and Ernst & Young are satisfied that the rates strike is legally effective. Their review noted a small number of areas where further improvements can be made in relation to the consistency of definitions.
- 5 Those areas of improvements have been reviewed and most had already been included in the 2013/14 rates strike. These will be further refined as part of the 2014/15 rates strike.

Debt Facilities

- 6 Ernst & Young have reviewed Council's debt, covenant and reporting, forecast and valuation of derivatives in relation to the fair value guarantee liability for the Local Government Funding Agency (LGFA) Guarantee.
- 7 The Council, along with other local authority shareholders and guarantors, has been unable to determine a sufficiently reliable fair value for the guarantee. Ernst & Young concur with the view of the Council and other shareholders that the risk of the LGFA with a credit rating of AA+ (same as the Government) is very low.

Carrying value of property plant and equipment

- 8 Ernst & Young have identified \$1.013 million of completed capital works that should have been capitalised as at 30 June 2013. These have been adjusted by management and included in the Draft Annual Report. The financial management team will carry out a monthly review in future to ensure that all work in progress is capitalised on a timely basis.

Financial Statement Closure Process

- 9 Improvements to the Financial Statement close process that have been identified will be instigated for the 2013/14 Annual Report process. Ernst & Young have noted that based on their review of the 2013 year end financial statements and their dealings with key financial staff around the audit that there has been improvement in the Council's efficiency and timeliness and dealing with stale items (provisioning for debtors) and timely review.

Legislative Compliance

- 10 Ernst & Young have reviewed Council's compliance with the relevant legislation. They are aware of two reported legislative breaches during the year which have been previously reported to the Audit & Risk Subcommittee. Ernst & Young have reviewed the documentation in relation to those breaches and are satisfied that they are not material in terms of the context of the audit.

Provisions and Contingent Liabilities

- 11 At the time of writing their closing report Ernst & Young were still in the process of auditing contingent liabilities. Riskpool have confirmed that there is no known exposure to additional mutual liabilities (shared Council liabilities) for the Council for the 2013/14 year and that there are no incurred but not reported (IBNR) provisions that should be included by the Council as at 30 June 2013.

Summary of recommendations previously raised

- 12 The issues previously raised and the action that has been taken on them are listed in Appendix C in the Closing Audit Report. All items have either been completed or in progress with processes in place to ensure that they are fully addressed.

Summary of Audit Differences

- 13 The summary of audit differences includes differences identified by Ernst & Young that have been agreed and adjusted in the Draft Annual Report. There may be further differences that are identified as part of the completion of the audit that will be discussed and agreed between the auditors and management.
- 14 The significant accounting and audit matters cover the areas of audit focus and audit conclusions. Any outstanding issues will be included in an Audit Management Report which will be prepared by Ernst & Young following the adoption of the audited Annual Report by Council. The Audit & Risk Subcommittee will review this report when received and also review the action to be taken by management on any significant issues in relation to audit recommendations raised.

Financial Considerations

- 15 Financial issues have been covered as part of this report.

Legal Considerations

16 Any legal issues have been covered as part of this report.

Delegation

17 The Audit and Risk Subcommittee has delegated authority to consider this report under the following delegation in the Governance Structure, Section C.4.

6. Without limiting the generality of this delegation the Subcommittee has the following functions, duties and powers:

External Audit

6.12 *receive the external audit report and review action to be taken by management on significant issues and audit recommendations raised within.*

Consultation

18 There are no consultation issues associated with this report.

Policy Implications

19 There are no policy implications arising from this report.

Tāngata Whenua Considerations

20 There are no Tāngata whenua considerations.

Publicity Considerations

21 There are no publicity considerations.

RECOMMENDATIONS

22 That the Audit and Risk Subcommittee receive the Closing Audit Report from Ernst & Young and notes that there are no significant accounting issues that have not been agreed and adjusted in the Draft Annual Report.

23 That the Audit & Risk Subcommittee notes that an Audit Management Report will be prepared by Ernst & Young following the adoption of the audited Annual Report by the Council and the Subcommittee will review this Report along with action to be taken by management on any issues and the audit recommendations raised.

Report prepared by:

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Appendix 1: Closing Report to the Audit & Risk Subcommittee for the year ended 30 June 2013