

**Kāpiti Coast District Council**  
Report on Control Findings

09 November 2012

 **ERNST & YOUNG**

24 September 2012

Warwick Read  
Kāpiti Coast District Council  
Private Bag 601  
Paraparaumu 5254

Dear Warwick

### **Report to management**

We have completed our audit of the financial statements and service performance information of Kāpiti Coast District Council ("Council") for the year ended 30 June 2012.

This management letter includes all control matters and issues arising from our audit findings that we consider appropriate for review by management.

In accordance with Office of Auditor General Auditing Standards which include International Auditing Standards we performed a review of the design and operating effectiveness of Council's significant financial and non 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 Council's internal control environment.

We wish to express our appreciation for the courtesies and co-operation extended to our representatives during the course of their work. If you have any questions or comments, please do not hesitate to call me on (04) 470 8641.

Yours faithfully  
Ernst & Young

Grant Taylor  
Partner

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# 1. Overview

## 1.1 Overview of Risk Ranking System

To ensure consistency in reports to yourself and the Audit Committee, we have classified our issues into three categories as follows:

<b>High</b> Needs significant improvement	<b>Immediate corrective action is required.</b> 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 the Council's reputation.
<b>Moderate</b> Needs substantial improvement	<b>Corrective action is required, generally within 6 months.</b> A control weakness, which can undermine the system of internal control and/or operational efficiency and should therefore be addressed.
<b>Low</b> Needs some improvement	<b>Corrective action is required, generally within 6 to 12 months.</b> 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 Audit Observations

The following table summarises the key issues and their risk ranking

	High Needs significant improvement	Moderate Needs substantial improvement	Low Needs some improvement
Capital Works in Progress			✓
Quote Process			✓
Desk Bank Approval			✓
Bond Refunds			✓
Trial Balance Structure			✓
Tracking of SSP Measures			✓
IT- General Controls			✓

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### **1.3 Disclaimer**

Issues identified are only those found within the course of the audit for year ended 30 June 2012. Recommendations are intended solely for the use of Council's management. We disclaim any assumption of responsibility for any reliance on this report, to any person other than Council or for any purpose other than that for which it was prepared.

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## 2. Observations

### Low Risk Category Issues

Issue: Capital Works in Progress	
<b>Observation</b>	Our review of the Capital Works in Progress (CWIP) balance at 30 June 2012 identified some assets which should have been capitalised during the year. This resulted in an audit adjustment for both the transfer of assets and an additional depreciation charge. Failure to ensure items are capitalised in a timely manner results in depreciation expense not being recognised appropriately. As depreciation is funded by rates there is a risk that Council could not only understate depreciation expenditure but also have funding shortfalls. We recommend management regularly review CWIP to ensure items are capitalised on a timely basis.
<b>Management Response</b>	Management will review the Capital Works in Progress (CWIP) on a monthly basis to ensure that all items are capitalised in a timely basis.
<b>Responsibility</b>	Warwick Read, Group Manager Finance

Issue: Quote Process	
<b>Observation</b>	Our review of debtors and provisions identified two debtors (Bunnings and Riverbank) in dispute as a result of quotes for resource consent being significantly different than the actual charges. The difference between actual costs and the original quotes were due to a change in resource requirement of which both customers were aware. While there is no dispute over the change in the extent of work, the customers were not updated during the process as to the extent of the change in costs. Disputes result in Council incurring additional cost and time to reach a resolution. There is potential to reduce this if there is greater communication in relation to the cost impact resulting from a change in resource requirement. We recommend where there are requirement changes customers are notified formally of the updated costs prior to commencement of work.
<b>Management Response</b>	Council will ensure that clients are kept fully informed as much as practicable of any changes to original quotes that could impact on the final cost. This should avoid any disputes when the final invoices are charged.
<b>Responsibility</b>	Warwick Read, Group Manager Finance

Issue: Desk Bank Approval	
<b>Observation</b>	Our testing of expenditure authorisation identified two incidences where the Desk Bank summary was not signed by the approver. We note the Desk Bank system requires two authorisers using unique codes before payment can be processed. We therefore consider signing the Desk Bank summary payments an unnecessary stage in the process and recommend Council consider discontinuing with this activity.
<b>Management Response</b>	Council agrees with Ernst & Young's comments that the Desk Bank summary payment schedule does not need to be signed because the Desk Bank system requires two authorisers with unique identification codes to authorise payments before they can be processed.
<b>Responsibility</b>	Warwick Read, Group Manager Finance

Issue: Bond Refunds	
<b>Observation</b>	Council retain a bond when resource and building consents are requested. This is held as a liability until work is completed and the customer requests a refund. At 30 June 2012 bonds held for resource consents totalled \$343k and \$658k for building consents. We note some deposits date back to 2000. Given the age of some of these deposits we suggest Council review the likelihood of work being completed and consider whether some of these liabilities be released.
<b>Management Response</b>	<p>The Council acknowledges that there are some Bonds that have been held for a number of years and investigation work will be carried out to ensure that these Bonds are released where work has been completed. The Bonds held will be reviewed on a regular basis.</p> <p>It needs to be acknowledged that some of this work has been put on-hold at the request of the Developers due to the economic downturn and some of these need to be further followed up to see whether they intend to continue with the development.</p>
<b>Responsibility</b>	Warwick Read, Group Manager Finance

Issue: Trial Balance Structure	
<b>Observation</b>	<p>Council's financial statements are prepared using an excel based model that draws from the NCS trial balance. This spreadsheet is stored on a shared drive. The mapping of the trial balance to the Financial Statements is driven by formulae within this spreadsheet. Excel can be easily manipulated and errors in the mapping may go unidentified. There is sufficient opportunity for multiple personnel to change the spreadsheet given it is on a shared drive and not protected by a password. If this spreadsheet was changed or lost it could distort the reporting in the financial statements.</p> <p>Our audit procedures have identified which accounts in the NCS trial balance map to each line item within the financial statements and we are satisfied the balances reported are materially correct. However we recommend Council consider simplifying the process used to prepare the financial statements, this could include consideration of the ongoing need to include source of funding in each eight digit account code.</p>
<b>Management Response</b>	<p>A full review will be undertaken of the current excel based model with a view to simplifying it and making it more user friendly and less complex.</p> <p>The source of funding still needs to be considered because Council is required to report on its funding impact statement under the new financial reporting requirements.</p>
<b>Responsibility</b>	Warwick Read, Group Manager Finance

Issue: Tracking of Statement of Service Performance (SSP) Measures	
<b>Observation</b>	<p>During our audit of the SSP we identified the following measure where the underlying data was insufficient to provide support for the asserted performance in the SSP;</p> <p>Maintenance requests are measured as follows:</p> <ol style="list-style-type: none"> <li>a. non urgent requests responded to within 24 hours</li> <li>b. urgent request responded to within 8 hours.</li> </ol> <p>Within the system there is the ability to identify a request as urgent and non urgent. However this distinction is not currently being made and therefore cannot be reported. We recommend a process is put in place to ensure this check is made in the system.</p>
<b>Management Response</b>	Process has been changed so that requests are now being identified using a check box to identify whether requests are urgent or non urgent.
<b>Responsibility</b>	Katrina Shieffelbein, Monitoring Officer

Issue: IT General Controls	
<b>Observation</b>	<p>Based on our discussions with Council we note there is no formal process to manage user access and no formal access reviews are performed.</p> <p>We recommend formal policies and procedures are established to ensure users are added with appropriate authority and access levels are reviewed to ensure access is consistent with authority and job description.</p>
<b>Management Response</b>	<p>The current process for establishing a new user and defining their access right requires their Manager to fill out a New User form stating what they require access to. The completed form is then sent to the IT Help Desk. Only the Technical Infrastructure team has authority to change user permissions.</p> <p>We will formalise this current process into policy and also formalise a procedure for regular reviews of user access permissions.</p>
<b>Responsibility</b>	Bernie Goedhart, Group Manager Corporate Services

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