

Chairperson and Subcommittee Members
AUDIT AND RISK SUBCOMMITTEE

29 SEPTEMBER 2015

Meeting Status: **Public**

Purpose of Report: For Information

**CLOSING REPORT FROM AUDIT FOR THE YEAR ENDED
30 JUNE 2015**

PURPOSE OF REPORT

- 1 This report provides the Subcommittee with a summary of Ernst & Young's Closing Audit Report for the year ended 30 June 2015.

DELEGATION

- 2 The Audit and Risk Subcommittee has delegated authority to consider this report under the following delegation in the Governance Structure, Section C.3.

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

External Reporting

- 7.5 *Consider the appropriateness of the Council's existing accounting policies and principles and any proposed changes.*

- 7.6 *Obtain from external auditors any information relevant to the Council's financial statements, and assess whether appropriate action has been taken by management in response to the above.*

- 7.7 *Ensure that the Council's financial statements are supported by appropriate management signoff and adequate systems of internal control (i.e. letters of representation).*

BACKGROUND

- 3 Council's Auditors, Ernst & Young (Audit) have substantially completed their audit of Council's draft Annual Report and Council's compliance with its Debenture Trust Deed, for the year ended 30 June 2015.
- 4 A Closing Report to the Audit and Risk Subcommittee is attached as Appendix 1. This provides an overview of Ernst & Young's audit process, their audit findings, financial statement adjustments required and their draft Audit Report.
- 5 The draft financial overview, financial statements and the draft annual report disclosure statement for the year ending 30 June 2015 are attached as Appendix 2 for your information.

CONSIDERATIONS

Closing Report Summary

Draft Audit Report

- 6 Audit has confirmed that they will issue an unqualified audit opinion on the 2014/15 Annual Report, subject to the adequate resolution of the following outstanding items:
- Receipt of signed letter of representation on adoption of the 2014/15 Annual Report by the Council on the 15 October 2015.
 - Completion of subsequent events procedures to the date of signing the audit report.
 - Finalisation of audit procedures associated with certain note disclosures in the financial statements and the complete review of the final version of the financial statements.

Areas of audit focus

- 7 Ernst & Young identified a number of key areas of focus for their audit, and these areas are discussed below.

Infrastructure assets

- 8 Audit noted an improvement in the timeliness of assets being transferred from work-in progress (WIP) to fixed assets as at 30 June 2015. However their review of WIP transfers did identify \$151,171 of completed capital works which should have been capitalised at 30 June 2012. This has subsequently been adjusted by management.
- 9 There were also some instances of assets being included in the wrong asset category or general ledger account. All these instances have been adjusted by management, as shown in the summary of audit adjustments section below.

Integrity of rates strike, rates invoicing and collection

- 10 Audit assessed the rates strike for 2014/15 and 2015/16 against the key elements of the legislative framework associated with the Local Government (Rating) Act and Local Government Act 2002.
- 11 Audit's testing of the rate setting processes indicated that Council's controls are operating effectively in this area.
- 12 Rates outstanding were reviewed and Audit was satisfied with Council's provision for doubtful debts in the financial statements.

New Zealand Transport Authority (NZTA) funding

- 13 Audit reviewed Council's process and controls (approvals, checking and reconciliations) to support claims made from NZTA and ensured that the roading work was competitively tendered.
- 14 The amount of NZTA funding received during the year was reviewed and was considered to be appropriately recorded in the financial statements.

Debt facilities and derivatives

- 15 Audit undertook detailed testing of Council's debt facilities and derivatives and reported no matters of concern to management.

- 16 Audit also completed audit procedures required by Council's Debenture Trust Deed. No issues were identified that indicated the reporting certificates issued by the Council were materially misstated. Consequently, Ernst & Young are prepared to issue an unqualified audit report to the Council's Trustees, Covenant Trustee Services (previously Foundation Corporate Trust).

Non-financial performance information reporting

- 17 Audit was satisfied that the Statements of Service Performance tested fairly reflected the Council's performance against the measures and targets outlined in the 2012 – 32 Long Term Plan.

Legislative compliance

- 18 Audit performed extensive audit work related to legislative compliance and no instances of non-compliance were found.

Core controls over operating expenditure, procurement and tendering

- 19 Audit reviewed the use of Council credit cards and gained assurance that expenditure was incurred for a reasonable purpose. It also reviewed the application of procurement policies applied during the year and areas of potential sensitivity for appropriateness and effective use of control. No matters of concern were identified through these audit procedures.

Employee entitlements

- 20 Audit undertook control testing over the payroll processes and controls utilised by management. They also assessed the accuracy of recognised employee entitlements at year end and verified their recognition and measurement to contractual entitlements and were satisfied that employee entitlements were materially correct.

New Financial Reporting Framework

- 21 Audit completed a technical review of the financial statements and assessed them to be compliant.

Sector-specific areas of focus

- 22 Each year the Office of the Auditor General outlines certain areas of focus to be considered during the audit process. Only those areas relevant to Kāpiti Coast District Council, and not already addressed in this report are discussed below.

Asset management

- 23 Audit obtained an understanding of the quality of asset management practices as part of their work on the 2015-35 Long Term Plan and the annual audit and have no material issues to note.

Fraud risks

- 24 Audit noted two fraud incidents during the year - one relating to misappropriation of Council Motor Trade Association (MTA) vouchers amounting to \$670 and one relating to misappropriation of cash proceeds from an aquatic facility aggregating to \$116.50.
- 25 These matters have been fully addressed by management and were reported to the Subcommittee at its meeting of 6 August 2015.

Elected members' remuneration and allowances and sensitive expenditures

- 26 Audit performed sensitive expenditure testing on a judgemental basis including the elected members' remuneration with no issues to report.

Disclosures of severance payments

- 27 Audit reviewed the adequacy of disclosures in the annual report relating to severance payments with no issues to report.

Audit Differences

- 28 The table below details financial differences identified by Audit that have been agreed and adjusted by management in the draft financial statements.
- 29 The net impact of these adjustments to the Statement of Comprehensive Revenue and Expense was nil. Similarly, the net impact to the Council's net assets was nil.

Audit Adjustments	Statement of Comprehensive Revenue & Expense	Net Assets
	(Increase) / Decrease	(Decrease) / Increase
To correct Motor Vehicle depreciation expenses incorrectly recorded in Transportation operating costs	\$336,853 (\$336,853)	
To capitalise completed assets from WIP into fixed assets		\$151,171 (\$151,171)
To correct Plant & Machinery Assets included in Motor Vehicle Assets		\$206,000 (\$206,000)
To correct Bridge assets included in Vested Assets		\$81,237 (\$81,237)
To correct NZTA funding receivable included in the expenses accruals		\$102,107 (\$102,107)
To de-recognise the GWRC share of rates debtors as at 30 June 2015		\$281,939 (\$281,939)
To increase the GWRC creditor balance for GST on rates		\$878,025 (\$878,025)
Total Net Impact of Adjustments	-	-

Financial Considerations

30 Financial issues have been covered as part of this report.

Legal Considerations

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

Consultation

52 There are no consultation issues associated with this report.

Policy Implications

53 There are no policy implications arising from this report.

Tāngata Whenua Considerations

54 There are no tāngata whenua considerations.

Publicity Considerations

55 There are no publicity considerations.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

56 This matter has a low level of significance under the Council Policy.

RECOMMENDATIONS

57 That the Audit and Risk Subcommittee receives 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 financial statements.

58 That the Audit and Risk Subcommittee receives the draft financial overview, the draft financial statements and the draft annual report disclosure statement for consideration.

59 That the Audit and Risk Subcommittee notes that subject to any change requests, the draft financial overview, the draft financial statements and the draft annual report disclosure statement will be included in the draft 2014/15 Annual Report for consideration by the Corporate Business Committee at its next meeting on 8 October 2015.

Report prepared by:

**Approved for
submission:**

**Approved for
submission:**

Mark de Haast
Financial Controller

Wayne Maxwell
Group Manager
Corporate Services

Stephen McArthur
Group Manager
Strategy and Partnerships

- Appendix 1: Ernst & Young's Closing Report to the Audit & Risk Subcommittee for the year ended 30 June 2015
- Appendix 2: Draft financial overview, draft financial statements and the draft annual report disclosure statement for the year ending 30 June 2015