

**Chairperson and Subcommittee Members**  
AUDIT AND RISK SUBCOMMITTEE

15 SEPTEMBER 2016

Meeting Status: **Public**

Purpose of Report: For Information

**AUDIT REPORT TO MANAGEMENT FOR THE YEAR ENDED  
30 JUNE 2016**

**PURPOSE OF REPORT**

- 1 This report provides the Subcommittee with a summary of Ernst & Young's Report on Control Findings for the year ended 30 June 2016.

**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:

*Internal Control Framework*

- 7.1 *Review whether management's approach to maintaining an effective internal control framework is sound and effective.*

*External Audit*

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

**BACKGROUND**

- 3 In accordance with New Zealand Auditing Standards, Ernst & Young (Audit) performed a review of the design and operating effectiveness of the Council's significant financial reporting processes as part of their audit for the year ended 30 June 2016.
- 4 Appendix 1 shows the six open control findings for the year ended 30 June 2015 (from a total of 12). This includes one audit control finding (from a total of seven) and five Information Technology General Control (ITGC) findings (from a total of five).
- 5 Management has completed actions plans for four of the five ITGC control findings. Close-out verification from audit is subject to Management completing the action plans for all five ITGC control findings.
- 6 As requested by the Subcommittee, a detailed report on the non-financial performance reporting (review of underlying data) and general ITGC system security settings will be tabled at the next Audit and Risk Subcommittee meeting, the date of which will be confirmed in the new Triennium.

- 7 Ernst & Young's Report on Control Findings for the year ended 30 June 2016 is attached as Appendix 2. This report details all of the internal control matters that were considered appropriate for review by management.

## CONSIDERATIONS

### Summary Report on Control Findings

- 8 Control risk matters and/or issues are classified as either high, moderate or low. Control risk definitions are as follows:
- **High Risk** – matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.
  - **Moderate Risk** – matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should normally be taken within six months.
  - **Low Risk** – A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6 -12 months.
- 9 Audit identified two new control risk issues in 2015/16 which ranged from moderate to low risk.

### Summary of internal control findings

- 10 Table 1 summarises the new control findings for the year ended 30 June 2016 including Council's responses and action plans to address these findings.

Table 1 - Summary of Control Findings for the year ended 30 June 2016

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Observation	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility
1	Reconciliation between Asset management System and the Fixed Asset Register <b>(Moderate)</b>	<b>31/03/2017 &amp; on-going thereafter</b>	Regular reconciliations between Council's Asset Management Systems and the Fixed Asset Register (FAR) in the General Ledger system are not completed.	Regular reconciliations should be completed to ensure that the assets recorded in the FAR and General Ledger are consistent with those held in the Asset Management Systems. This helps to ensure that data provided to the Valuer is a full and complete record of the assets as at each balance date and that the FAR is accurate and complete in the intervening years.	Agreed.	Such reconciliations will be completed for the 30/06/2017 revaluations of the following asset classes: 1. Roading (including land under roads). 2. Parks and Open Spaces. 3. Land and Buildings.	Finance and Asset Managers responsible for the assets being revalued.

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Observation	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Responsibility
2	Adequate documentation for Landfill after-care future nominated cash flows <b>(Low)</b>	<b>30 June 2017</b>	Audit noted a revision to the estimated nominal future cash flows for the landfill after-care provision with a cost saving of approx. \$1.10 million. Whilst the cost estimates were adequately detailed, supporting documents (such as vendor quotes) to evidence the cost reduction was not readily available.	Without adequate supporting documentation in place to support the changes to the nominal future cash flows, there is a potential risk for an incorrect provision being recognised in the financial statements. Management should ensure that proper documentation supporting the landfill after-care provision is always retained.	Agreed.	<ol style="list-style-type: none"> <li>1. Ensure that proper documentation supporting the landfill after-care provision at year end is always retained.</li> <li>2. Council will seek to have these estimated nominal future cash flows peer reviewed by independent and external specialists (at least three yearly or more regularly, if required).</li> </ol>	Finance and the Solid Waste Activity Manager.

## Financial Considerations

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

## Legal Considerations

12 There are no legal considerations.

## Consultation

13 There are no consultation issues.

## Policy Implications

14 There are no policy implications.

## Tāngata Whenua Considerations

15 There are no tāngata whenua considerations.

## Publicity Considerations

16 There are no publicity considerations.

## **SIGNIFICANCE AND ENGAGEMENT**

### Degree of significance

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

## **RECOMMENDATIONS**

18 That the Audit & Risk Subcommittee receives Ernst & Young's Report on Control Findings for the year ended 30 June 2016 and notes that Council agrees with the two internal control recommendations.

19 That the Audit and Risk Subcommittee notes that action plans are being implemented to remedy these control findings and progress updates will be provided at each Audit and Risk Subcommittee meeting.

**Report prepared by:**

**Approved for  
submission:**

**Approved for  
submission:**

**Mark de Haast  
Financial Controller**

**Janice McDougall  
Acting Group Manager  
Corporate Services**

**Stephen McArthur  
Group Manager  
Strategy and Planning**

Appendix 1: Summary of open control findings for the year ended 30 June 2015

Appendix 2: Ernst & Young's Report on Control Findings for the year ended 30 June 2016

## Summary of open control findings for the year ended 30 June 2015

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Progress to date
1	<b>Non-financial performance reporting – review of underlying data (Moderate)</b>	March 2016 <b>(On-going)</b>	We recommend KCDC to continue to streamline the systems, processes and quality control over KPI reporting necessary to ensure actual performance is captured, recorded and reported appropriately.	Council will continue reviewing all KPI's and improving how KPI data is collected and stored. MagiQ (the Council's financial and business management system) now provides functionality to capture KPI data. This will be further investigated against the above observations.	<ol style="list-style-type: none"> <li>1. Review KPIs</li> <li>2. Investigate and test MagiQ functionality to capture KPI data.</li> </ol>	A significant amount of data for KPI reporting is currently captured in MagiQ. Work to progressively move remaining data collection to predominately one where the data is electronically collected and reports are automatically generated for reporting purposes will be led by the Business Improvement Team.

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Progress to date
2	<b>Change management (High)</b>	<b>(Completed)</b>	<ul style="list-style-type: none"> <li>▪ Revisiting the Change Management control process documentation and updating it with current Council practices.</li> <li>▪ Enforcing the use of the Change Management Policy to ensure that all changes are appropriately authorised, tested, approved, monitored and evidence documented.</li> <li>▪ Optimising use of existing change management tools to ensure that all changes are adequately captured.</li> <li>▪ Using a version management tool to ensure that Council controls and monitors all changes in the production environment.</li> <li>▪ Reviewing of system generated list of changes within the existing Change Advisory Board process.</li> </ul>	Council agrees with the recommendation and notes the significance of the implications outlined. Council is actively working on the practical implementation of sound change management processes across the organisation with the objective of mitigating the risks identified.	<p>Implement standard process utilising a specific Change Management tool (ManageEngine Service Desk) and rollout to key users.</p> <p>Regular Change Control Meetings, to be reported back to the Group Manager, Corporate Services.</p>	Completed

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Progress to date
3	<b>User access management process (High)</b>	<b>(Completed)</b>	<ul style="list-style-type: none"> <li>▪ Document a user access management process which includes the access request, modification, removal, and review procedures.</li> <li>▪ Ensure appropriate notification is provided from HR for terminated employees to ensure that access to systems is removed.</li> <li>▪ Formalise a user access review process so that it is managed through a centralised location to ensure all reviews are completed.</li> <li>▪ Implement regular review of user accounts to ensure that access is only granted to users with a need to access a system.</li> <li>▪ Ensure that individuals that monitor and review these accounts are not administrators within these systems.</li> </ul>	Council agrees with the recommendations. Council is currently engaged in a review of the user management processes in place with the objective of developing and implementing suitable processes to ensure optimal management of the IT infrastructure system.	<p>User Register to be created and maintained with a process for the addition and removal of users based on employee and contractor recruitment and termination.</p> <p>User Review team (responsible for the audit and review of User access) to be created, with representatives from all key business units within the organisation.</p>	Completed

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Progress to date
4	<b>Segregation of duties (High)</b>	<b>(Completed)</b>	<ul style="list-style-type: none"> <li>▪ Ensure different individuals / system resources perform access requests, access approval, access provisioning, monitoring access violations for both IT privileged and Business end users.</li> <li>▪ Ensure different individuals perform privileged user access reviews, monitoring of privileged accounts and monitoring system generated list of changes in production environment.</li> <li>▪ Different individuals / system resources perform change requests, change approval, move programmes in and out of production and monitor changes and restrict developer access to the production environment.</li> <li>▪ Apply a version management tool to ensure that Council controls and monitors all changes in production environment.</li> </ul>	Council agrees with the recommendation. The process for identifying and authorising duties is currently being reviewed as part of the overall ITGC systems review and appropriate implementation will be actioned as a priority.	<p>Process for addition and removal of user duties to be identified and implemented.</p> <p>Audit and review of administration access to be undertaken with role segregation to be created via access specific logins (i.e. removal of generic admin users).</p>	Completed

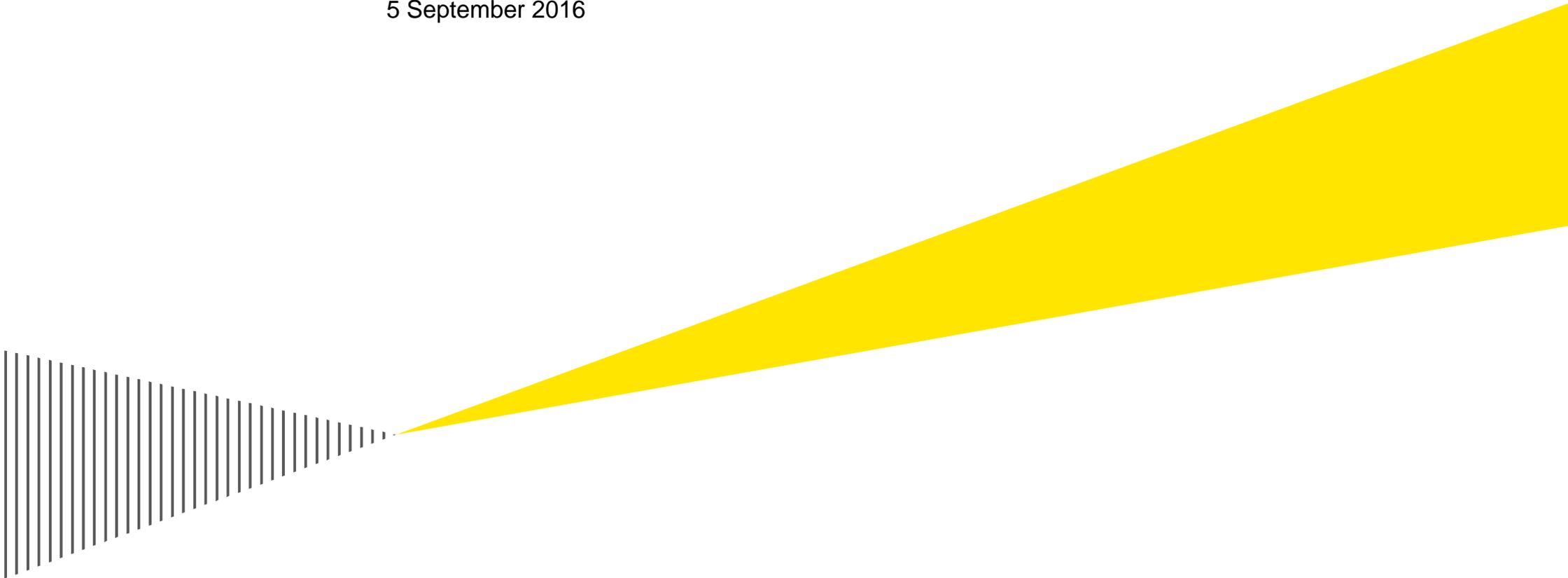
No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Progress to date
5	<b>General system security settings (Moderate)</b>	March 2016 (On-going)	<p>The New Zealand Information Security Manual (NZISM), updated in November 2014 to be considered as a baseline for IT security practices.</p> <p>These policies should be reviewed and approved at least annually to make any necessary adjustments as a result of IT environment changes.</p>	<p>Council agrees with the recommendations and plans are underway to engage an external consultant to conduct a wide ranging audit including a general IT architecture review. The recommendations arising from these audits will provide detailed information on both ICT Strategy and general IT security and will form the basis of the implementation for improvements as a priority item.</p>	<p>Process and policies based on the NZISM will be created and regularly reviewed.</p>	<p>Changes in general security systems continue with the introduction of better user controls and administrative access.</p> <p>The full work programme is targeted to be completed by early 2017.</p>

No.	Control finding and risk ranking	Target date for completion and current status	Ernst & Young Audit Recommendation	Council's Response	Action Plan	Progress to date
6	<b>Back-up operations (Low)</b>	Sept 2016 (completed)	<ul style="list-style-type: none"> <li>▪ Review current backup operations and approving back-up retention periods as part of the backup policy that is being developed. Business and system owners, in consultation with IT, should authorise and define the retention periods to ensure that these are practical and appropriate.</li> <li>▪ Retain backup logs for all applications and recording corrective actions using the centralised incident management procedures.</li> <li>▪ Implementing activities designed to perform regular testing of DLT tapes stored offsite at EOC, ensuring that critical data can be restored as and when it is required.</li> <li>▪ Perform Disaster Recovery testing offsite.</li> </ul>	Council agrees with the observation. Current back up operations are in place, however these processes are being reviewed along with the wide ranging audit and general IT architecture review.	<p>Review existing back-up hardware and software to ensure adequacy and implement changes when required.</p> <p>Detailed back-up processes and procedures to be created and reviewed regularly.</p>	Completed.

# Kapiti Coast District Council

Report on Control Findings

5 September 2016



Building a better  
working world



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5 September 2016

Group Manager, Corporate Services  
Kapiti Coast District Council  
Private Bag 601  
Paraparaumu 5254

Attention: Wayne Maxwell

Dear Sir

#### Report to Management

We have completed our audit of the financial statements of Kapiti Coast District Council ("the Council") for the year ended 30 June 2016.

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 New Zealand Auditing Standards we performed a review of the design and operating effectiveness of Kapiti Coast District Council's significant 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 Kapiti Coast District 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 0500.

Yours faithfully

Marcus Henry  
Partner

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# 1. Overview

## 1.1 Overview of Risk Ranking System and Summary of Recommendation Issues

As part of our audit of the financial statements, we obtained an understanding of the internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of the internal controls we are required to communicate to you significant deficiencies in the internal controls.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

The following table provides an overview of the number of observations and the risk ratings we have identified.

	High	Moderate	Low	Total
Open at 30 June 2015	4	3	5	12
Closed during FY16	0	(2)	(4)	(6)
New points raised in FY16	0	1	1	2
Total open points as at 30 June 2016	4	2	2	8*

\* Of these eight open items, five (four high and one low risk) relate to the IT environment which we have not revisited this year.

Key:

-  A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
-  Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should normally be taken within 6 months.
-  Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within 3 months.

## 1.2 Disclaimer

Issues identified are only those found within the course of the audit for year ended 30 June 2016. Recommendation issues 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 the Council or for any purpose other than that for which it was prepared.

## 2. Observations

### 2.1 Open points raised in prior years

Issue: Non-financial performance reporting – review of underlying data	
<b>Observation</b>	<p><b>FY 2015 Observation:</b></p> <p>Council uses its management information system, “MagiQ”, to report results relating to achievement of service performance measures contained in the statement of service performance. We noted the following:</p> <ul style="list-style-type: none"> <li>▶ In most cases, the information is maintained on spreadsheets stored on common directories accessible by a wide range of Council staff prior to being uploaded into MagiQ.</li> <li>▶ For some measures data is maintained by the external contractors and uploaded directly into MagiQ without a peer review.</li> <li>▶ There were no formal mechanisms designed to ensure the integrity of reported results once the data has been uploaded into MagiQ.</li> </ul> <p>As part of the LTP we understand KCDC has undertaken a review of tier 1 KPIs and their measures and these have been included in the Long Term plan that was adopted on 25 June 2015. Further work is also scheduled in 2015/16 to further streamline data collection methods during the 2015/16 in line with our recommendation on the MagiQ systems.</p> <p><b>FY 2015 Management Response:</b></p> <p>Council will continue reviewing all KPI’s and improving how KPI data is collected and stored. MagiQ now provides functionality to capture KPI data. This will be further investigated against the above observations.</p> <p><b>FY 2016 Observation:</b></p> <p>We understand management is continuing to explore options to utilise the functionality available within MagiQ with the intention to move all KPI data capture and reporting to that system. This should therefore, improve the quality controls over the KPI reporting necessary to ensure the actual performance is captured, recorded and reported appropriately.</p>
<b>Recommendation</b>	We continue to recommend KCDC streamline its systems, processes and quality control over KPI reporting necessary to ensure actual performance is captured, recorded and reported appropriately.
<b>Management Response</b>	Council agrees with the recommendation and will continue to investigate and determine how MagiQ can be best used to capture record and report KPI data.
<b>Responsibility</b>	Kevin Black (Manager Corporate Planning and Reporting) with the support from the Senior Leadership Team.

**Issue: IT Control Environment Assessment and Recommendation**

<p><b>Observation</b></p>	<p><b>FY 2015 Observation:</b></p> <p>In prior year, we reviewed the core financial applications at the Council to assess whether we were able to rely on the IT general controls relating to the general ledger system (NCS). As a result of the work performed, we noted a number of weaknesses which resulted in us concluding that we could not place reliance on the IT environment general controls (i.e. Change Management, Logical Access, Segregation of Duties, General System Security Settings and Backup Operations).</p> <p>This improvement point encompasses four high rated and one low rated improvement findings and recommendation included in our IT Control Environment Assessment and Recommendations report dated 7 January 2015.</p> <p><b>FY 2015 Management Response:</b></p> <p><b>Change Management:</b></p> <ul style="list-style-type: none"> <li>- Council agrees with the recommendation and notes the significance of the implications outlined. Council is actively working on the practical implementation of sound change management processes across the organisation with the objective of mitigating the risks identified.</li> </ul> <p><b>User access management processes:</b></p> <ul style="list-style-type: none"> <li>- Council agrees with the recommendations. Council is currently engaged in a review of the user management processes in place with the objective of developing and implementing suitable processes to ensure optimal management of the IT infrastructure system.</li> </ul> <p><b>Segregation of Duties:</b></p> <ul style="list-style-type: none"> <li>- Council agrees with the recommendation. The process for identifying and authorising duties is currently being reviewed as part of the overall ITGC systems review and appropriate implementation will be actioned as a priority.</li> </ul> <p><b>General System Security Settings:</b></p> <ul style="list-style-type: none"> <li>- Council agrees with the recommendations, plans are underway to engage an external consultant to conduct a wide ranging audit including a general IT architecture review. The recommendations arising from these audits will provide detailed information on both ICT Strategy and general IT security and will form the basis of the implementation for improvements as a priority item.</li> </ul> <p><b>Backup Operations:</b></p> <ul style="list-style-type: none"> <li>- Council agrees with the observation. Current back up operations are in place, however these processes are being reviewed along with the wide ranging audit and general IT architecture review.</li> </ul> <p><b>FY 2016 Observation:</b></p> <p>We understand management continues to explore workable solutions to address the findings from our review but that not all issues have yet been resolved and therefore we did not complete a review of the IT applications this year.</p> <p>Once Council is satisfied that all our findings and recommendations are implemented, we will conduct a review to ascertain whether these matters are closed and to provide a basis for future audit reliance.</p>
<p><b>Recommendation</b></p>	<p>We continue to recommend KCDC address all of the recommendations raised in our report dated 7 January 2015.</p>
<p><b>Management Response</b></p>	<p>Council agrees with the recommendation and notes that all findings except for the General System Security Settings are considered to be fully resolved (subject to verification from EY). Improvements to general security systems will continue throughout the year with the introduction of better user controls and administrative access.</p>
<p><b>Responsibility</b></p>	<p>Marcus Bone (ICT Manager) with the support of the Senior Leadership Team)</p>

## 2.2 New points raised in FY 2016

Issue: Reconciliation between Asset Management System and the Fixed Assets Register	
<b>Observation</b>	<p>KCDC engaged Opus International Consultants Ltd to carry out an asset valuation of the three waters infrastructure assets as at 30 June 2016. Opus' valuation is based on assets data stored and extracted from the Council's water assets management system (InforNet) which holds assets data at component level including asset ID, location, descriptions, age and capitalisation dates.</p> <p>InforNet does not contain asset cost values and in essence is different and separate from the MagiQ Fixed Assets Register (FAR), which only records summarised asset data for accounting purposes.</p> <p>The two systems currently do not inter-face and a regular reconciliation between the systems is currently not conducted. In the absence of a regular reconciliation between the two systems, there is an increased risk of inconsistent data being held in each system i.e. additions, disposals and useful lives might be included in one system but not in the other in a timely manner (or at all) and any valuations carried out by external parties could be prepared on the basis of incomplete information.</p> <p>Furthermore, the financial statements in years during which no valuations are undertaken, may not accurately reflect the water assets network.</p>
<b>Recommendation</b>	<p>A regular reconciliation should be conducted to ensure that the assets recorded in the FAR and General ledger are consistent with those held within the InforNet system. This helps to ensure data provided to the valuer is a full and complete record of the assets as at each balance date and that the FAR is accurate and complete in the intervening years.</p> <p>We understand Opus and AECOM have also made a number of improvement recommendations in this area and we believe these should be considered.</p>
<b>Management Response</b>	Council agrees with the recommendation to complete regular reconciliations between the asset management system and the FAR and general ledger system.
<b>Responsibility</b>	Mark de Haast (Financial Controller) with the support from the Senior Leadership Team.
Issue: Adequate documentation for Landfill Aftercare future nominal cash flows	
<b>Observation</b>	<p>During our review of the Landfill aftercare provision, we noted a revision to the estimated nominal future cash flows with a cost saving of approximately \$1.1m. At the time of our review, while the revised future cost estimates were adequately detailed, supporting documents such as vendor quotes to evidence the cost reduction were not readily available.</p> <p>Without adequate supporting documentation in place to support the changes to the nominal future cash flows, there is a potential risk for incorrect provision being recognised in the financial statements.</p>
<b>Recommendation</b>	We recommend management ensure proper documentation supporting the amount of each aftercare cost revision is retained.
<b>Management Response</b>	Council agrees with the recommendation to ensure that any changes to the nominal cash flow estimates are substantiated with supporting documentation. In addition, due to the inherent risks in estimating the nominal future cash flows of the landfill after-care costs, Council will seek to have these estimates peer reviewed at least every three years or more regularly if required.
<b>Responsibility</b>	Mark de Haast (Financial Controller) with the support of the Senior Leadership Team.

## 2.3 Points closed during FY 2016

Issue: Timely Capitalisation of Capital Work In Progress (WIP)	
<b>Observation</b>	<p>As at 30 June 2015 the Council had capitalised \$24.1 million of work in progress (WIP) in relation to a range of projects that were active during the period. Approximately 80% of this was capitalised in the months of May and June 2015 respectively. It is our understanding that the capitalisation process tends to occur at later parts of the year as a result of the Council's project cycle. However we have identified instances where it has taken a lengthy period to capitalise items. For example library books that were purchased on 26 June 2014 were not capitalised until 30 June 2015. There are also instances where the project has been capitalised but certain costs have been left in WIP; for instance engineering work of \$151,771 has been in WIP since 2012 and an audit adjustment was raised to capitalise this at year end.</p> <p>Failure to capitalise WIP on a timely manner results in depreciation expense not being recognised appropriately. As depreciation is funded by rates there is a risk that the Council could not only understate depreciation expenditure but also have funding shortfalls.</p>
<b>Recommendation</b>	<p>The risks we identified in our prior year review continue to be apparent, albeit at a much lower level. We recommend that management perform an overall review on a periodic basis of each WIP project to ensure items are capitalised on a timely basis. We expect management to implement adequate processes and controls in place to identify assets that are no longer WIP in nature.</p>
<b>Management Response</b>	<p>An external resource was engaged to focus solely on fixed asset recognition and accounting in early January. This dedicated focus also contributed to asset capitalisations in May and June 2015. Management will however continue to implement adequate resource, processes and controls to identify assets that are no longer WIP in nature.</p>
<b>Responsibility</b>	<p>Mark de Haast, Financial Controller</p>
<b>2016 Update</b>	<p><b>Recommendation closed.</b></p> <p>We noted WIP capitalisation occurred regularly throughout the year and our review of the WIP position as at 30 June 2016 did not identify any completed projects in WIP that ought to be capitalised before year end.</p>

### Issue: Subsequent Costs and de-recognition of Replaced Asset

<b>Observation</b>	The Council is regularly renewing or upgrading fixed assets, for instance road assets are resurfaced every few years. According to NZ PBE IPSAS 17 para 24 the carrying amount of those parts that are replaced should be derecognised. We understand this is not occurring at present.
<b>Recommendation</b>	We recommend the asset costs and accumulated depreciations be de-recognised when assets are replaced.
<b>Management Response</b>	Historically, this formed part of the three yearly asset revaluations. From 1 July 2015/16, Council will undertake yearly asset revaluations. Management will however continue to implement adequate resource, processes and controls to identify assets that have been replaced and should be de-recognised.
<b>Responsibility</b>	Mark de Haast, Financial Controller
<b>2016 Update</b>	<b>Recommendation closed.</b> Based on our review of the capital additions in the year we have not identified any such matters.

### Issue: Fully Depreciated Property, Plant & Equipment

<b>Observation</b>	As at 30 June 2015 the Council has \$12.3 million of fully depreciated assets on its fixed assets register, \$5.5 million of this relates to Computers and Office Equipment. We have identified a number of items where it is unlikely future economic benefits or service potential is expected and hence should be derecognised. For example there are computers from 1999 with a cost value of \$93,405 in the Fixed Asset Register.  There is a risk that assets that are no longer in use remain in the Fixed Assets Register and the general ledger hence grossing up both the cost and accumulated depreciation on the balance sheet.
<b>Recommendation</b>	We recommend that management undertake a review of fully depreciated assets and where no future economic benefits or service potential is expected the asset be derecognised and removed from the fixed assets register.
<b>Management Response</b>	Management will continue to implement adequate resource, processes and controls to derecognise assets that have been fully depreciated and will only remove such assets from the fixed asset register where no future economic benefits and/or no service potential is expected from such assets.
<b>Responsibility</b>	Mark de Haast, Financial Controller
<b>2016 Update</b>	<b>Recommendation closed.</b> Management have conducted a review during the year to assess whether fully depreciated assets in the fixed assets register have any future economic benefits or service potential. Consequently, \$11.3m of fully depreciated assets were derecognised from the fixed asset register as at 30 June 2016.

Issue: Timely review of expenditure policies	
<b>Observation</b>	<p>We noted the following policies had not been reviewed for a considerable period:</p> <ul style="list-style-type: none"> <li>▶ Sensitive Expenditure</li> <li>▶ Disposal of Assets</li> <li>▶ Travel Expenditure</li> <li>▶ EPO</li> <li>▶ Office Supplies Purchasing</li> </ul> <p>Council's own practice is to review these policies every two years. In particular, we noted the sensitive expenditure policy was last updated in 2008 and was therefore due to be reviewed in 2010. We understand this policy has been drafted and is currently under review with an aim to implement it in the financial year ending 30 June 2016.</p>
<b>Recommendation</b>	Policies should be reviewed periodically to ensure that they correctly reflect Council's expectations
<b>Management Response</b>	Council's corporate policy review period has changed to five yearly or earlier, if required. A corporate policy register (approximately 50 policies) has been created and a prioritised review cycle is underway. The policies identified above have been blended into a draft Procurement Policy and a draft Sensitive Expenditure Policy. These were discussed with the Senior Leadership Team in September 2015. Requested changes are being processed for final approval by the Chief Executive before 30 November 2015.
<b>Responsibility</b>	Mark de Haast, Financial Controller
<b>2016 Update</b>	<p><b>Recommendation closed.</b></p> <p>During the year we noted the above policies had been updated and we have not identified any other policies beyond their review period.</p>

Issue: Building and resource consents	
Observation	<p>Council retain a bond when building and resource consents are requested. These are held as a liability until work is completed and the customer requests a refund. At 30 June 2015 bonds held for building consents totalled \$428k and resource consents \$403k. We noted some deposits date back to 2007. Given the age of some of these deposits we suggest the Council review the likelihood of work being completed and consider whether some of these liabilities can be released.</p> <p>We understand KCDC is in the process of reviewing the bonds with the aim of refunding where appropriate.</p>
Recommendation	<p>We reiterate our recommendation that Council continue to investigate the owners of these bonds and return them where appropriate or elect to be the holder and return the money to the Inland Revenue Department if unclaimed.</p>
Management Response	<p>During the year, Council refunded \$359,000 of vehicle damage and resource consents bonds. Council will continue to regularly monitor these bonds and return them when appropriate. In addition, management will fully consider the requirements and/or impacts on Council electing to be the holder and returning the money to the Inland Revenue Department if unclaimed.</p>
Responsibility	<p>Mark de Haast, Financial Controller</p>
2016 Update	<p><b>Recommendation closed.</b></p> <p>During the year, Council refunded a large amount of these funds with a remaining balance to be returned of \$290k as at 30 June 2016. This is a significant improvement from prior year and therefore, we consider management approach to be working in concluding this matter.</p>

Issue: Capital Expenditure Policy	
Observation	<p>KCDC's capital expenditure policy states items below \$1000 should not be capitalised regardless of the nature of the item. We reviewed the capital additions listing for the year and noted a small number of items below the \$1000 threshold that had been capitalised.</p> <p>We further noted an instance where an operating expenditure items were recorded in the capital work in progress. For example a cost of a plumber to unblock drains has been recorded as capital, this is repairs &amp; maintenance.</p> <p>Although the amounts were immaterial, we consider absence of adequate review of expenditure capitalisation creates a risk that there are items of expenditure that have been incorrectly capitalised during the period hence overstating assets while understating operating expenditures.</p>
Recommendation	<p>We recommend that KCDC capitalisation guidelines are followed when making the decision on whether to capitalise expenditure while at the same time reviewing the nature of items before being recorded as capital expenditure.</p>
Management Response	<p>Management will continue to implement adequate resource, processes and controls to ensure that assets capitalisation guidelines are followed including reviewing the nature of items before being recorded as capital expenditure.</p>
Responsibility	<p>Mark de Haast, Financial Controller</p>
2016 Update	<p><b>Recommendation closed.</b></p> <p>During the course of our audit we did not identify any such matters.</p>

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ED 0414

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