

Management report on the audit of
Waitakere City Council
for the year ended 30 June 2007

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Audit New Zealand has performed 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 generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that is not material in terms of your financial statements.

The implementation and maintenance of your systems of controls for the detection of these matters remains the responsibility of the governing body and management.

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25 July 2007

His Worship the Mayor
Bob Harvey
Waitakere City Council
Private Bag 93 109
WAITAKERE

Dear Bob

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Interim report for the year ended 30 June 2007

1. Introduction

We have completed our interim audit of Waitakere City Council (WCC) for the year ending 30 June 2007 and are pleased to report to you the findings arising from the audit. This report provides a summary of:

- scope and objectives of the interim audit;
- our assessment of the management control environment;
- the audit findings arising out of the interim visit; and
- status of issues raised in the prior year management letter.

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2 Scope

The purpose of the interim audit was to review and evaluate the adequacy of the internal control systems so as to determine the level of work required for the final audit. Financial balances were not tested during the interim audit.

Our approach was to review the adequacy of controls within the systems used by management for decision making. These systems ensure the best information is available for decision-making, and that the assets of WCC are safeguarded. Reliance is then placed on these systems to reduce the level of testing required to verify the amounts disclosed in the financial statements.

The level of testing performed is designed so as to maximise the efficiency of our audit. This means the review cannot be relied upon to detect every instance of misstatement, fraud or irregularity that is not material in terms of WCC's financial statements.

The implementation and maintenance of WCC's systems of control for the detection of these matters remains the responsibility of management and Council. Management can extend the scope of our audit should they wish.

3 Management control environment

3.1 Background

The management control environment is determined by the attitude, awareness and actions of the governing body, management, and others (who have the ability to influence the reliability of control systems) concerning the importance of internal control.

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The control environment encompasses the entity's control culture and values, organisation and governance structures and its commitment to designing and maintaining reliable accountability systems. It also includes its attitude and approach to planning, budgeting, performance monitoring and compliance with legislative requirements. These translate into internal control procedures that are established to provide reasonable assurance that specific entity objectives will be achieved. These internal controls are built into the following processes:

- Governance structures and mechanisms
- Risk management
- Financial planning, reporting and monitoring
- Operational financial controls
- Quality assurance procedures.

The stronger the management control environment, the greater the likelihood that these processes at different levels within the organisation will operate as designed and that the organisation's objectives will be achieved.

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3.2 Our approach

Our approach for the audit of the financial statements is, where possible, to place reliance on WCC's control environment and management systems, with a view to minimising the level of detailed transaction testing performed.

3.3 High level controls

We found that, consistent with the previous year, WCC continues to operate an effective management control environment and there are effective financial management processes in place. We have identified the following as some of the key aspects of the management control environment:

- The Council and management have demonstrated a commitment to appropriate management control systems in place that operates effectively. This includes both the maintenance of essential transactional recording systems as well as detailed financial analysis and management reporting throughout relevant levels of WCC.

- Ensuring those charged with compliance have strategies in place to ensure compliance.
- Regular reporting on the result of the framework to the Council.

We also recommend that WCC conducts compliance training for staff at regular intervals, example every two years.

3.5 Overall assessment

Overall we assessed the management control environment to be effective (2006: effective).

4 Audit findings

4.1 Bank reconciliation

We found that both the November and December 2006 bank reconciliations contained significant unreconciled variances, and at the time of writing this report these variances were not fully resolved. Consequently no bank reconciliations were completed for the period November 2006 through to May 2007.

We understand that the primary cause of this problem arose from the switch of financial management information systems from Gems to Pathways, which occurred in November 2006. We were advised that contributing factors included: transaction drop off during the transfer process; cut off issues; miscoding in the new system; and lack of audit trails. The lack of audit trails has made it extremely difficult for Council to trace and resolve the 'problem' transactions.

Council management are aware of the risks surrounding this issue and have placed a high priority on finding resolution; with the objective of ensuring that all the bank reconciliations are complete by the time the 30 June 2007 annual report is drafted. As of July we understand that the team have resolved a number of the reconciling issues and are positive that satisfactory resolution to the problem will be achieved in accordance with the planned timelines.

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Once the issue has been resolved we recommend that Council undertake a post implementation audit of Pathways. One of the objectives of this audit will be to specifically identify the contributing factors to the current reconciliation problem; so that these are not repeated in future conversions. Another objective of the audit would be to identify areas where procedures and controls could be improved in order to eliminate post implementation problems e.g., lack of audit trail, cut off issues, and coding issues.

We also noted that the rates and sundry debtors' reconciliation were also not prepared on a timely basis due to the change to the Pathways system. Similar system interface issues as mentioned above were encountered resulting in the delay in preparation of these reconciliations. However the finance personnel were closely monitoring the variances during our interim visit, with daily reconciliations prepared to mitigate variances from accumulating. We understand that the variances are not significant and that management are positive that the issue will be resolved in the near future.

Management comment

The bank reconciliation process is progressing and we expect to be able to present a position which will satisfy the the final audit. New bank reconciliation processes will be in place when SAP goes live on 1 August 2007. These have been fully documented and tested, and, staff are now being trained.

The reconciliations for all of the debtors control accounts, including rates and water billing, are now substantially complete with only minor unreconciled issues remaining. The system is now stable with any further issues being addressed as soon as they arise.

4.2 Preparation and review of the salaries and wages clearing account

We found that the payroll reconciliations between the salaries and wages clearing account (GEMS) and payroll reports (JADE) were not being prepared for each pay period. We understand that the breakdown in this control was because a senior payroll employee was seconded on a full time basis to the SAP user group team.

To ensure that this control is operating effectively recommend that responsibility be delegated to another payroll employee along with the assignment of a senior employee to review and approve the reconciliations.

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Management comment

The reconciliations are currently being prepared for the remaining periods. An independent review of the reconciliations will also be performed by a senior payroll advisor. The reconciliations will be complete in time for the final audit.

5 Audit independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit we have performed audit of the Council's preliminary opening balance sheet and audit of the restated financial information under New Zealand International Financial Reporting Standards. These assignments are compatible with those independence requirements.

Other than the annual audit and these assignments, we have no relationship with or interests in the Council or any of its subsidiaries.

Unresolved disagreements

We have not had any unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Furthermore, management has not sought to influence our views on matters relevant to our 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 WCC that is significant to the audit.

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During the 2007 financial year an Audit New Zealand employee accepted a position of employment with WCC. We have considered this appointment in terms of the independence requirements and concluded that there are no independence issues arising out of this appointment. Other than this instance we are not aware of any other situations where a staff member of Audit New Zealand has accepted a position of employment with WCC during the financial year.

6 Acknowledgement

We wish to acknowledge the assistance provided by management and staff during the audit. Should you require clarification on any other matters raised in this letter please contact me on 021-222 8215 or my Audit Manager – Steve Jensen on 021-222 8607.

Yours sincerely,



Ben Halford
Director

cc: Harry O' Rourke, Chief Executive Officer
Andrew Pollock, Director: Finance
Robert Rudd, Director: Quality Assurance
Alec Third, Group Manager Financial Operations

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Appendix 1

Status of issues reported after the 2006 audit

Issue	Recommendation	Current status
<p>FINAL AUDIT MANAGEMENT LETTER</p> <p>Assessment of fair value</p> <p>Council revalued all its infrastructure assets as at 1 July 2005. We assessed the impact of the increase in construction costs and determined that there is no material impact (based on our materiality level for infrastructure assets) on the 2005/06 Statement of Financial Position.</p>	<p>We recommended that Council put in place a system whereby the price movements and other indicators of fair value movement are regularly considered and, if necessary assets are revalued to ensure they are carried at amounts that do not differ significantly from their fair value.</p>	<p>Council has performed a full valuation of infrastructure assets. Annual fair value assessments are performed as required by <i>NZ IAS 16 Property, Plant and Equipment</i>.</p>

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The New Zealand Institute of Chartered Accountants Financial Reporting Standard No 3: Accounting For Property, Plant and Equipment (FRS-3) requires revaluations to be performed with sufficient regularity to ensure no individual item of property, plant and equipment within a class is included at a valuation that is materially different from its fair value.

Issue

Sensitive expenditure

In the 2006 audit we considered the adequacy of policies and procedures around the use of credit cards, travel and accommodation, and staff expenses and reimbursements. We noted a number of areas in the policies that required updating to conform to best practice guidelines.

Recommendation

We noted a number of areas in the policies that required updating to conform to best practice guidelines and recommended that Council consider updating its policies.

Current status

Council is aware of the issues noted and is in the process of reviewing it's sensitive expenditure policies against the guidance issued by the Office of the Auditor General ("Controlling Sensitive Expenditure: Guidelines for Public Entities"). Some policies have been updated and are in the review stage.

The Quality Assurance Unit will continue to test compliance to sensitive expenditure policies as part of its annual work programme.

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Issue	Recommendation	Current status
<p>Bank reconciliation</p> <p>The year-end bank reconciliation had a variance of \$15,394 against the general ledger, the reconciliation being higher than the general ledger by this amount. This variance represents June cash receipts not accounted for in the general ledger. The variance was due to incorrect cut-off for cash receipts at month end. Secondly the bank reconciliations were not prepared and reviewed on a timely basis.</p>	<p>We recommended that Council implement sufficient procedures around cut-off for cash receipting to ensure cut-off occurs correctly and on a timely basis. We further recommended that bank reconciliations be prepared and reviewed on a timely basis. Outstanding balances or any variances should be followed up and reconciled in a timely manner.</p>	<p>The Council is aware of the importance of timely bank reconciliations. Bank reconciliations once prepared are reviewed on a timely basis. There has been reliance upon information management staff to assist in technical aspects of clearing receipts. During May 2006 the prime person responsible for the bank reconciliations resigned. This resulted in a delay to the July reconciliation being prepared.</p>

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Please refer to Section 4.1 for further information on this issue.

Issue	Recommendation	Current status
<p>Finance lease Council had classified its computer leases as operating leases. We noted that the computer lease agreements met the definition of a finance lease in terms of SSAP 18 Accounting for Leases and Hire Purchase Contracts. The net book value of the leased assets was estimated to be approximately \$980k.</p>	<p>We recommended that Council review all its computer lease agreements and ensure that they are correctly treated as finance leases in terms of the new NZ IAS 17 Leases for the 2007 year.</p>	<p>This has been completed for the year end 30 June 2007. The process for classifying leases as either operating or finance lease were implemented during the NZ IFRS conversion process.</p>

We had accepted Council's treatment as the overall impact was not material.

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Issue	Recommendation	Current status
<p>Fraud policy It is the expectation of the Auditor-General that every public entity should formally address the matter of fraud, and formulates an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Council has procedures for managing instances of fraud but did not have a formal fraud policy.</p>	<p>We recommended that Council prepare a formal fraud policy.</p>	<p>The Fraud Policy has been prepared and is in the review stage.</p>

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Criteria for Assessing Applications

1. **Waste minimisation** - Projects that contribute to waste minimisation in Waitakere City
2. **Community awareness and participation** - Projects that heighten community knowledge, promote active involvement in waste minimisation, and encourage behaviour change.
3. **Innovation** - Projects that develop or provide an entirely new product, technology or service to an area, community or business sector that did not previously exist.
4. **Transferability** – Ideas or projects that can be implemented across Waitakere.
5. **Cost-effective** – Reductions in waste to landfill or level of awareness raised should be relative to the cost of the project.

Conditions of Acceptance

Activities or projects should be carried out within Waitakere and must benefit the Waitakere community and deal with waste generated in Waitakere.

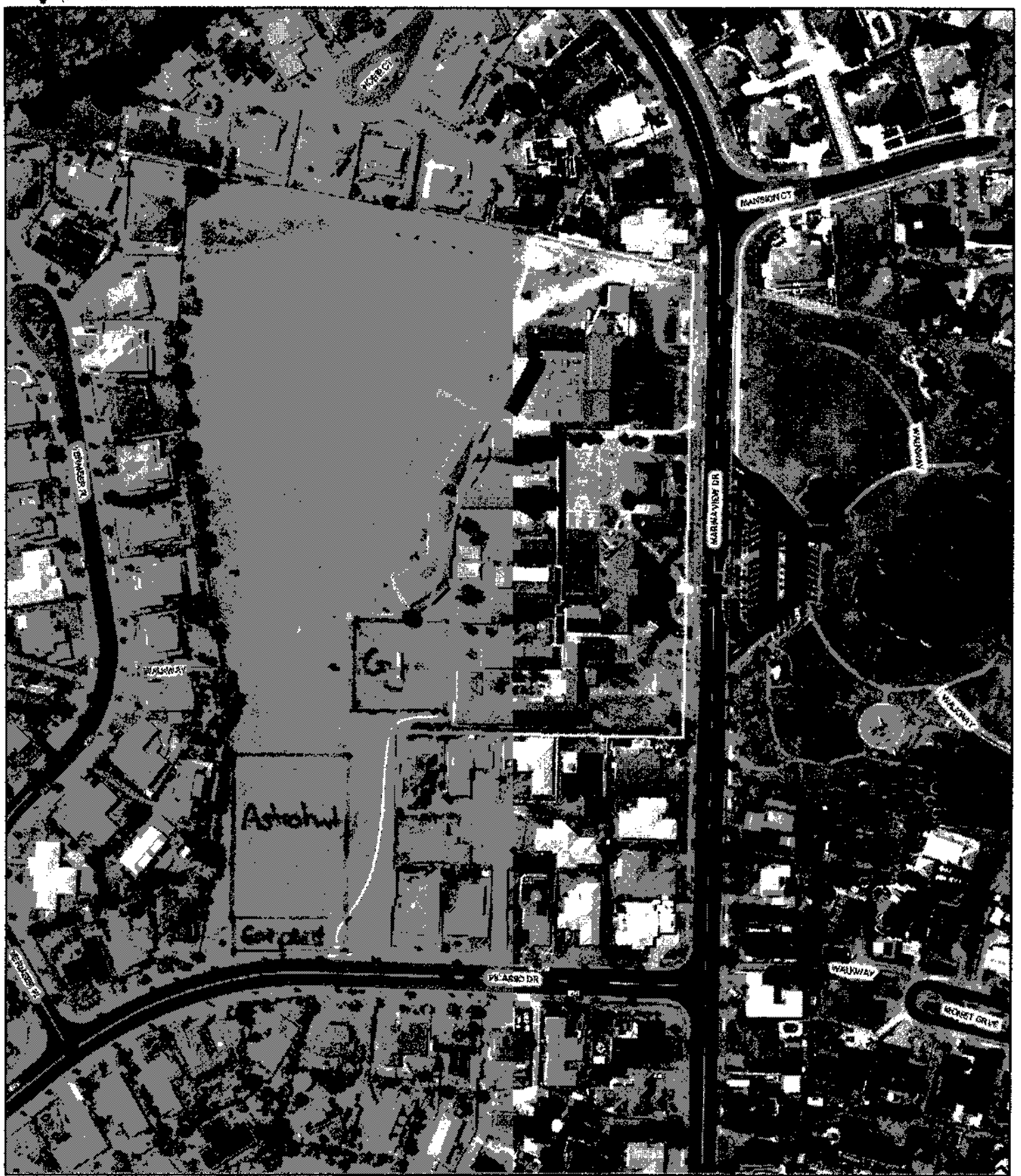
All money must be returned if the project is not started.

If the project is not completed then all money not spent from the date the project is stopped must be returned.

All grants need to be drawn prior to the completion of the project. Any funds not drawn by this time cannot be allocated to the project.

A certificate of expenditure and project report form must be completed and signed with all receipts accounting for the full amount of the grant. The certificate of the project must be returned to the Council within two months of completion of the project. Failure to do this will require the funding to be returned and future funding will not be granted.

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- Legend**
- Railway Station
 - Footway
 - Bulking Footprint
 - Sub 223
 - Parcel
 - Road
 - Stream
 - Water Body

Marina View School

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Services shown on public amenity and are not public drains unless used as through drains
 While Council endeavours to provide accurate spatial data no guarantee as to the completeness and accuracy of the data shown on this plan can be given
 All information, including levels and locations, are not of survey grade accuracy and should be verified on site.
 For enquiries about the information shown please phone the call centre (09) 839 0400

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Scale = 1:1,953
 10 Metres
 16/07/2007



Waitakere City Council
 Te Taitā o Waitākere

