

Risk and Assurance Committee

Reports Distributed Under Separate Cover

- Item 7.3 - Interim Report to Council for the Year ended 30 June 2020
- Item 8.2 - Key Risk Register Update - June 2020
(Public Excluded)

Monday, 15 June 2020 commencing at 9.30 am

Fiona McTavish
Chief Executive
9 June 2020



Risk and Assurance Committee

Membership

Chairperson	Cr David Love
Deputy Chairperson	Bruce Robertson (Independent)
Members	Cr Bill Clark Cr Stuart Crosby Cr Andrew von Dadelszen Cr Te Taru White
Ex Officio	The Chairman is an ex-officio member of every committee (including standing, special, joint and subcommittees) of the Bay of Plenty Regional Council Toi Moana pursuant to section 41A(5) of the Local Government Act 2002.
Quorum	Three members, consisting of half the number of members
Meeting frequency	Quarterly

Purpose

Monitor the effectiveness of Council's funding and financial policies and frameworks to ensure the Council is managing its finances in an appropriate manner.

Monitor the effectiveness of Council's performance monitoring framework.

Ensure that Council is delivering on agreed outcomes.

Role

- Monitor the effectiveness of Council's funding and financial policies and Council's performance monitoring framework (financial and non-financial);
- Review Council's draft Annual Report prior to Council's adoption;
- Receive and review external audit letters and management reports;

- Approve and review the internal audit plan and review the annual programme report;
- Approve, review and monitor Council's risk framework and policy;
- Review the risk register;
- Monitor Council's legislative compliance and receive reporting on non-compliance matters as part of risk management reporting.

Power to Act

To make all decisions necessary to fulfil the role and scope of the committee subject to the limitations imposed.

Power to Recommend

To Council and/or any standing committee as it deems appropriate.

- The Risk and Assurance Committee is not delegated authority to:
- Develop, review or approve strategic policy and strategy.
- Develop, review or approve Council's Financial Strategy, funding and financial policies and non-financial operational policies and plans.

The Risk and Assurance Committee reports directly to the Regional Council.

Reports circulated under separate cover

7.3 Audit New Zealand Interim Audit Report for the year ending 30 June 2020

9

APPENDIX 1 - Audit NZ - Interim Audit Report 2019-20

15

Public Excluded Section

Resolution to exclude the public

THAT the public be excluded from the following parts of the proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General Subject of Matter to be Considered	Reason for passing this resolution in relation to this matter	Grounds under Section 48(1) LGOIMA 1987 for passing this resolution
8.2 Key Risk Register Update - June 2020	To protect this information so it doesn't damage public interest	Good reason for withholding exists under Section 48(1)(a)

8.2 Key Risk Register Update - June 2020

APPENDIX 1 - Key risk register - June 2020

APPENDIX 2 - KRR - Heat Map - June 2020

Reports



Receives Only – No Decisions

Report To: Risk and Assurance Committee

Meeting Date: 15 June 2020

Report From: Mat Taylor, General Manager, Corporate

Audit New Zealand Interim Audit Report for the year ending 30 June 2020

Executive Summary

The purpose of this report is for the Risk and Assurance Committee to receive the Audit New Zealand Interim Audit Report to Council for the year ending 30 June 2020 (Appendix 1).

The Audit New Zealand Interim Audit Report to Council is based on a review carried out in April and May 2020 in respect of Council activity for the 2019/20 financial year.

The report provides recommendations and prioritises them as urgent, necessary or beneficial. There were no recommendations prioritised as urgent or beneficial, however there were three recommendations prioritised as necessary.

In addition, seven actions from the previous audit were fully resolved by management, eight actions are in progress, and four matters will be followed up during the final audit.

Audit Director, Leon Pieterse, will be attending the Risk and Assurance Committee meeting.

Recommendations

That the Risk and Assurance Committee:

- 1 Receives the report, Audit New Zealand Interim Audit Report for the year ending 30 June 2020.**

1 Introduction

In June 2020, Audit New Zealand released the draft interim audit report on Bay of Plenty Regional Council for the year ending 30 June 2020. The report sets out the findings from the interim audit including areas where the Council is performing well and recommends areas where improvements could be made. The report also includes any open prior year findings and any actions taken.

Staff responded by seeking further clarifications on the findings, investigating any issues and providing feedback to Audit New Zealand as required. The attached interim

audit report includes responses from Council where appropriate. Audit Director, Leon Pieterse, will be attending the Risk and Assurance Committee meeting.

2 Key messages

Audit New Zealand performed an assessment of Council's control environment, considering the effective design, implementation and maintenance of internal controls.

Overall they assessed the control environment as effective. This means that based on the work performed, the Council has adequate internal controls in place that will either prevent or detect material misstatements in its financial statements or statements of service performance.

Audit New Zealand also noted that there are some controls that Council can further strengthen. These are discussed in the following sections.

3 Necessary recommendations

Three new necessary recommendations have been made as part of the interim audit findings as summarised below.

3.1 Review of creditor masterfile changes report (report reference 2.2.1)

Audit New Zealand noted that the creditor masterfile report had not been consistently prepared and reviewed promptly. The independent review of the creditor masterfile report is a key control that serves to ensure the integrity of changes in creditor information.

Action taken

The independent preparation and review of creditor masterfile changes report will be carried out in a timely manner (at least on a monthly basis) by the Financial Accounting Team.

3.2 Asset revaluations (report reference 3.1)

3.2.1 Continue to improve asset data (reference)

Audit New Zealand noted that there are data inaccuracies between the asset management system and GIS mapping performed by Council for our Rivers and Drainage assets. They have recommended that Council continue the process currently in place to improve asset data to ensure assets are measured accurately.

Action taken

Data validation between the two enterprise systems is a key project in the Rivers and Drainage Team to contribute to improving Council's asset data and information.

3.2.2 Review the depreciation rate on fencing

Audit New Zealand noted fencing in the rivers and drainage valuation is not depreciated and believe that it should be. They have stated that the understatement in depreciation is not considered material given the total value of these assets as at 1 July 2019 was \$826,895.

Action

Council's accounting policy is not to depreciate fencing given that replenishment of the perpetual asset is included in the maintenance schedules of the Rivers and Drainage Asset Management Plan.

3.3 Covid-19 impacts (report reference 3.3)

Audit New Zealand has highlighted that Covid-19 virus has had a significant impact on the majority of organisations and their people across the globe. They have recommended the Council perform a detailed assessment of where Covid-19 could impact on the values, transactions and disclosures within the annual report. They have also recommended that Council considers any potential caveats that may be included in the land and building revaluations as well as the put option as at 30 June 2020.

Action

Council will prepare an assessment of the potential impact on both the financial and non-financial reporting as part of the Annual Report 2019/20. Council will perform an assessment on any caveats/implications of Covid-19 included in the external land and buildings valuation reports.

4 Status of previous recommendations

Audit New Zealand noted that there were 19 recommendations from previous years' audits. The current status of these previous recommendations is seven matters have now been resolved, eight matters have had some progress made but not fully resolved and four matters will be followed up during the final audit visit.

The detail of each matter is in the Appendix to the report.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	0	8	0	8
Implemented or closed	0	7	0	7
Matters that will be followed up during our final audit visit	0	4	0	4
Total	0	19	0	19

5 Conclusion

The external auditor's report has highlighted recommendations and these have been appropriately noted and actioned.

6 Budget Implications

6.1 Current Year Budget

This work is being undertaken within the current budget for the Finance Activity in the Annual Plan 2019/20.

6.2 Future Budget Implications

Future work on annual audits is provided for in Council's Long Term Plan 2018-2028.

7 Community Outcomes

This work directly contributes to all the Community Outcomes in the Council's Long Term Plan 2018-2028.

Debbie Hyland
Finance & Transport Operations Manager

for General Manager, Corporate

8 June 2020

APPENDIX 1

Audit NZ - Interim Audit Report 2019-20

**Report to the Council
on the interim audit of
Bay of Plenty Regional Council**

For the year ending 30 June 2020

Contents

- Key messages
- 1 Recommendations
- 2 Assessment of internal control
- 3 Other Areas of audit focus
- 4 Adoption of new accounting standards.....
- 5 Useful publications
- Appendix 1: Status of previous recommendations
- Appendix 2: Adoption of new accounting standards
- Appendix 3: Disclosures

Key messages

We have completed our interim audit for the year ending 30 June 2020. This report sets out our findings from the interim audit and draws attention to areas where the Council is doing well or where we have provided recommendations for improvement.

This year, the interim audit visits were performed remotely due to the restrictions in place as a result of Covid-19. Your staff used IT resources in order to engage with us in an efficient manner. As a result, we were able to complete the interim audit work in a timely manner. However, due to the challenges of working remotely, some of the work we planned to bring forward from the final audit could not be completed.

The main purpose of the interim audit visit was to review and perform testing on the Council's control environment and internal control systems. Our assessment is for the purpose of planning an effective and efficient audit approach in order to enable us to express an audit opinion on the Council's financial statements and performance information.

We have assessed the overall control environment to be effective. Council has made noteworthy progress on prior year recommendations and we commend them for this effort. The status of open and closed recommendations from prior years is set out in Appendix 1.

During the financial year ending 30 June 2020, Council is undertaking revaluations on both river and drainage assets, and land and buildings. We are currently undertaking our review of the river and drainage assets, further information is set out below. As part of the final audit, we will review the revaluations on land and buildings.

At this point in time, we have not been able to assess the impact of Covid-19 on your annual report. We plan to do this prior to the start of the final audit and we will communicate with the Regional Council if any audit risks or issues have been identified as a focus area.

We understand the Regional Council completed a detailed assessment of where covid-19 could impact the values, transactions, and disclosures within the annual report (both on financial and non-financial reporting). We will review this assessment as part of the final audit.

Thank you

We would like to thank the Council, management and staff for their assistance and availability during our interim audits.

Leon Pieterse
Appointed Auditor
8 June 2020

1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommendations.

Priority	Explanation
Urgent	<p>Needs to be addressed <i>urgently</i></p> <p>These recommendations relate to a significant deficiency that exposes the Regional Council to significant risk or for any other reason need to be addressed without delay.</p>
Necessary	<p>Address at the earliest reasonable opportunity, <i>generally within six months</i></p> <p>These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.</p>
Beneficial	<p>Address, <i>generally within six to 12 months</i></p> <p>These recommendations relate to areas where the Regional Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.</p>

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Creditor master file changes report prepared and submitted for review in a timely manner.	2.2.1	Necessary
Continue to the process to improve asset data and consider the impact that Covid-19 may have on valuations.	3.1	Necessary
The Council reviews the completed assessment of where Covid-19 could impact the annual report.	3.3	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous year's recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	0	8	0	8
Implemented or closed	0	7	0	7
Matters that will be followed up during our final audit visit	0	4	0	4
Total	0	19	0	19

2 Assessment of internal control



The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

2.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

We consider that a culture of honesty and ethical behaviour has been created. The elements of the control environment provide an appropriate foundation for other components of internal control.

This year, the interim audit visits were performed remotely due to the restrictions in place as a result of Covid-19. Your staff used IT resources in order to engage with us in an efficient manner. This included, at the request of management, bringing forward the date of the second interim audit which we were able to complete the interim audit work in a timely manner. However, due to the challenges of working remotely, some of the work we planned to bring forward from the final audit could not be completed.

2.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

2.2.1 Creditor master file changes report prepared and submitted for review in a timely manner.

The timely independent review of the creditor master file is a critical key control that serves to ensure integrity of changes to creditor information. A vendor master file changes report is generated each week, however we noted the creditor master file report had not been checked and submitted for independent review in a timely manner. Our sample testing found the reviews were completed between two and three months after month-end for a period of the year.

It is essential that the control operates in a timely manner throughout the year to ensure the integrity of the Council's financial information.

We recommend that an independent review is carried out, within one month of the end of the week to which the report relates, to ensure that the creditor information within the system is genuine and correct.

Management comment

Council will ensure the independent review of the credit master file changes is performed in a timely manner.

3 Other Areas of audit focus



3.1 Asset revaluations

Improve river and drainage asset data accuracy and review river and drainage asset depreciation rates.

We are in the process of completing our audit of the rivers and drainage valuation as at 1 July 2019, to gain assurance these assets are fairly stated. Our audit procedures have been focused on ensuring the judgements and assumptions used were fair, the asset data was complete and accurate, and the unit rates applied to assets were reflective of their fair value. We have raised recommendations for improvement over the revaluation process below.

Asset data accuracy

We reviewed how the measurements of assets were obtained. Through discussion with management, we noted there are data inaccuracies between the asset management system (AMS) and GIS mapping performed by the Council. Accurate asset data is important in ensuring the valuations are as accurate as possible.

We understand the Council has engaged a contractor to conduct ground truthing on assets. This is mainly focused on the flood repair works currently under construction or recently completed. The Council is also undergoing a separate data validation process to ensure existing assets have been captured accurately, this involves on-the-ground inspections, including dimensions information and mapping.

We recommend the process to improve asset data is continued, to ensure assets are measured accurately.

Management comment

Data validation is a key project in the Rivers and Drainage Team and is an on-going project that will contribute to improving Council's asset data and information.

Depreciation rates

We noted fencing in the rivers and drainage valuation is not depreciated. As at 1 July 2019, the Council held fencing assets within the rivers and drainage asset class to the value of \$826,895.

We believe the fencing assets should be depreciated. Based on our assessment of appropriate depreciation rates, we do not believe there is a material understatement of depreciation or overstatement of the assets value.

We recommend the Regional Council reviews the depreciation rate on fencing.

Management comment

Under the Rivers and Drainage Asset Management Plan (AMP), annual depreciation is applied to long life assets where they last across generations and are expensive to replace and build. Under the AMP, fencing is maintained in perpetuity with an average age of 10 years. In Council's maintenance schedule, funding is allocated for annual replenishment of the perpetual assets like fencing and rock. On this basis, Council does not believe that fencing should be further depreciated given the above.

Land and buildings revaluation

The Council is also undertaking a revaluation of its land and buildings as at 30 June 2020. As part of our final audit, we will review the revaluation. We also consider this revaluation an area of audit focus due to the complexity of the valuation and the level of judgement involved in completing the valuation.

With COVID-19, we expect there to be an impact on the valuation of land and buildings. At this point, we expect that valuers should be able to determine fair values. However, we expect to see greater comments by valuers in their reports about significant uncertainties in their valuations. We have prepared a bulletin on our website that provides guidance on the implications of the COVID-19 emergency, for revaluations of property, plant and equipment, and investment property. Refer to <https://auditnz.parliament.nz/good-practice/public-sector-reporting/bulletin-one>.

Should the valuer include significant caveats in their valuation report due to the COVID-19 emergency, we recommend the Regional Council considers the potential implications when processing the revaluation of land and buildings.

Management comment

Council has engaged an independent valuer to undertake the valuation of land and buildings as at 30 June 2020; the valuer has the appropriate expertise to consider the impacts of Covid-19. Council will review the valuation report to ensure that any caveats/potential implications are considered in full.

3.2 Valuation of Put option

The Regional Council revalues its put option every year at year-end. PBE IFRS 9 *Financial Instruments*, requires that financial instruments measured at fair value through profit and loss are measured at fair value at year-end.

Due to the nature and value of the valuation, any bias or errors in the inputs used or calculations performed could result in an incorrect value for the put option.

During the final audit we plan to, assess relevant controls that management has put in place for the valuation, and obtain an understanding of the underlying data. We also plan to evaluate the qualifications, competence, and expertise of the external valuer used; and review the method of valuing the put option and assess if the applicable method used is in line with the financial reporting framework, including the reasonableness of the assumptions used.

Should the valuer include significant caveats in their valuation report due to the COVID-19 emergency, we recommend the Regional Council considers the potential implications when processing the revaluation of the put option.

3.3 Impact of Covid-19 on your organisation

On 11 March 2020, the World Health Organization declared the outbreak of a coronavirus (Covid-19) a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this the country was at Alert Level 4 and in lockdown. As a result, economic uncertainties have arisen which are likely to negatively affect our operations and services. The announcement that the Covid-19 virus is a global pandemic has had a significant impact on the majority of organisations and their people across the globe.

At this point in time, we have not been able to assess the impact of Covid-19 on your annual report. We plan to do this prior to the start of the final audit and we will communicate with the Regional Council if any audit risks or issues have been identified as a focus area.

Our understanding is the Councillors obtained a detailed impact assessment on the annual report due to Covid-19 in May 2020. We commend the Council on this approach.

We recommend the Regional Council reviews the assessment closer to the time of the annual report to ascertain if any of the assumptions have changed significantly since May 2020. We would like to review this assessment as part of the final audit or earlier if available.

Management comment

Council will prepare an assessment of the potential impacts on both the financial and non-financial reporting for the Annual Report 2019/20.

4 Adoption of new accounting standards



Public benefit entities must apply the new “group” accounting standards, PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures*, PBE IPSAS 37 *Joint Arrangements*, and PBE IPSAS 38 *Disclosure of Interest in Other Entities*, in preparing their 30 June 2020 financial statements.

Management is responsible for performing the necessary transition work to successfully implement these new standards. Areas of focus with the transition include:

- Assessing whether the revised control definition and guidance result in an entity being assessed as controlled under PBE IPSAS 35 for those entities previously assessed as not controlled under prior standards. For example, trusts established by Bay of Plenty Regional Council that support Bay of Plenty Regional Council in achieving its objectives.
- Determining whether a joint arrangement is categorised as a joint venture or joint operation. Joint ventures must be accounted for using the equity method.
- Updating the “group” accounting policies and “group” related disclosures in the financial statements. PBE IPSAS 38 generally requires more disclosure about interests in other entities than the previous standards.
- Implementing changes to systems and processes that may be necessary to support changes in accounting practices.
- Keeping relevant parties informed, such as your auditor and audit committee.

The transition to these new standards may require significant judgement for some arrangements and may be particularly time consuming for those entities with a large number of potentially controlled entities. It is important that management substantially completes its transition work on these new standards well in advance of 30 June 2020. We recommend that as part of this, management prepares pro-forma financial statements so that revised group-related disclosures can be agreed.

We encourage the Regional Council to share its transition plan and transition work with us early in the audit process so we can agree issues and adjustments in a timely manner.

5 Useful publications



Based on our knowledge of the Bay of Plenty Regional Council, we have included some publications that the Council and management may find useful.

Description	Where to find it
Client updates	
<p>In March and April 2019, we hosted a series of client updates. The theme was “Improving trust and confidence in the public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p> <p>Relevant sessions for Bay of Plenty Regional Council include</p> <ul style="list-style-type: none"> • Procurement and Contract management; and • Accounting technical update. 	<p>On our website under publications and resources.</p> <p>Link: Client updates</p>
Model financial statements	
<p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	<p>On our website under publications and resources.</p> <p>Link: Model Financial Statements</p>
Tax matters	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under publications and resources.</p> <p>Link: Tax Matters</p>

Description	Where to find it
Client substantiation file	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On the OAG’s website under publications and resources.</p> <p>Link: Client Substantiation File</p>
Matters arising from the 2017/18 audits	
<p>The OAG has published a report on the results of the 2017/18 audits for the sector.</p>	<p>On the OAG’s website under publications.</p> <p>Links: Local Government</p>
Good practice	
<p>The OAG’s website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. 	<p>On the OAG’s website under good practice.</p> <p>Link: Good practice</p>
Reporting fraud	
<p>The OAG has released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be broken down further into sub-sectors by opening the spreadsheets available.</p>	<p>On the OAG’s website under data.</p> <p>Link: Reporting Fraud</p>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Contract management		
We identified a number of improvements that the Council could implement to further enhance contract management practices to be in line with good practice.	2019 interim	<p>In progress</p> <p>There is a formal contracts register (kept manually) but no significant contract management functionality with it. There is one centralised contracts listing kept in a spreadsheet (excel format).</p> <p>In 2020 the Council will be implementing a fit for purpose contracts management module as part of the TechOne Road Map. This will integrate with financials, P2P and fulfil contract management requirements. There is also a "Contract" drafting software opportunity under discovery to address the contract type requirements solution for the Council in 2020/21.</p> <p>Management comment</p> <p><i>The TechOne Roadmap includes provision for the development and implementation of a contracts management system. Council will be carrying out this work once the latest contract management module from the vendor is available. There is also a "Contract" drafting software opportunity under discovery to address the contract type requirements solution for Council with an estimated timing of 2020/21. Council considers this matter closed.</i></p>
Procurement policy		
The Procurement Policy was last updated in May 2016 and was due for review in May 2019.	2019 interim	<p>In progress</p> <p>The Council is currently in the process of reviewing the Policy and Manual. Arc Blue has advised potential areas for improvement. The Policy and Manual</p>

Recommendation	First raised	Status
		<p>update is expected to be undertaken in September 2020, ready for adoption during 2021.</p> <p>Management comment</p> <p><i>Due to Covid-19 the initial Procurement policy and manual updates have been rescheduled to September 2020 and this aligns with work the Council is doing on its social procurement framework.</i></p>
Risk Register		
<p>Review IT risks and include them in the Corporate Risk Register.</p>	<p>2019 interim</p>	<p>In progress</p> <p>The IT risk register has been reviewed and the Council has decided that no IT risks met the threshold for inclusion in Council's Risk and Assurance reporting.</p> <p>Management has developed but not yet tested business continuity plans to ensure that they could continue to operate without systems and technology.</p> <p>Management comment</p> <p><i>Council completed testing of its Business Continuity Plans on 4 March 2020 as part of Covid-19. The testing was successful and allowed users to work remotely during Alert Level 4.</i></p> <p><i>IT risks are regularly reviewed and any significant risks are escalated to the key risk register. Council considers that the key controls are working effectively and this matter is resolved.</i></p>
Sensitive expenditure - Supporting documents and coding		
<p>We recommended the Council ensures transactions are coded correctly and appropriate supporting documentation is attached to ensure all transactions have sufficient evidence and are allocated to the correct general ledger</p>	<p>2019 Final</p>	<p>Open</p> <p>We identified one instance where an invoice was coded incorrectly.</p> <p>We noted a further two instances where supporting documentation was not retained.</p> <p>Management comment</p> <p><i>Council provides regular communication</i></p>

Recommendation	First raised	Status
		<i>and training to staff on sensitive expenditure. One of the two instances noted above was below the \$50 threshold for GST purposes.</i>
Expenditure - incorrect coding and GST calculations		
We recommended the Council ensures that expenses are coded correctly and that the appropriate GST is recorded.	2019 interim	<p>Open</p> <p>We noted one instance where an asset had been coded into materials. This should be classified as an asset.</p> <p>Management comment</p> <p><i>Council will continue provide additional training and support to staff to ensure coding of transactions are correct. Council also perform data analytics to help detect these types of errors.</i></p>
Declaration of interests		
We recommended all interests are declared and recorded in the Interest Registers	2018	<p>Open</p> <p>We have noted instances where related parties identified through Companies Register search and Charity Register search were not included in the interest registers.</p> <p>We have provided management details of where instances occurred.</p> <p>Management comment</p> <p><i>Council will continue to compare the declarations made by Elected Members to the Companies and Charities Registers.</i></p>
Fraud policy		
Based on the Ministry of Justice' guidance, we recommended that the Council updates its Fraud Policy to comply with the ministry's guidance.	2017	<p>Open</p> <p>We enquired with management and noted a new fraud policy has not updated and adopted to comply with the Ministry's guidelines.</p> <p>Management comment</p> <p><i>A new fraud policy is in progress where the OAG guidelines will be taken into account to ensure our policy complies with best practice.</i></p>

Recommendation	First raised	Status
River and drainage valuation		
We recommended, in future reporting periods, physical inspection of assets is undertaken by the external peer reviewer to ensure the accuracy, existence, and condition of the assets being valued	2019 Final	<p>Open</p> <p>We have reviewed the rivers and drainage valuation as at 1 July 2019 and noted the peer reviewer still has not completed site inspections.</p> <p>Management comment</p> <p><i>The recommendation for a consultant to undertake physical inspections will be investigated in future years but currently Council staff perform the physical asset inspections.</i></p>

Implemented or closed recommendations

Recommendation	First raised	Status
Necessary		
TechOne purchase order system		
<p>We recommended staff are only able to code purchase orders to the department that they work in to ensure the accuracy of the cost incurred per group of activity or cost centre.</p> <p>We recommended the P2P system is configured so that purchase orders are not raised and approved by the same staff member.</p> <p>We also recommended an independent review is performed of purchase orders that have been raised and approved by the same staff member during the current year</p>	2019 interim	<p>Closed</p> <p>For purchase orders raised, staff can now only code to cost centres assigned to their user profile. Cost centres assigned to user profiles should be relevant to that staff member.</p> <p>The purchase order system still has the functionality to self-raise and approve purchase orders. We note there are compensating controls and it is not usual business practice for staff to raise purchase orders outside of their cost centres.</p> <p>Management is aware of this and has accepted the risk and we have closed the matter. We will still continue to complete additional audit procedures to ensure in self-approved purchase orders are for a valid business purposes.</p>

Recommendation	First raised	Status
Journals are prepared and approved by the same person		
<p>We recommended that monthly reconciliations are reviewed in a timely manner and evidence of this review is clearly documented within the system. Best practice suggests that a timely review is one that is performed in the month following the month for which the reconciliation is prepared.</p>	2019 interim	<p>Closed</p> <p>The TechOne system has been updated and the system now has automated control which prevents the self-approving of journals.</p>
Timely review of reconciliations		
<p>We recommended that monthly reconciliations are reviewed in a timely manner and evidence of this review is clearly documented within the system. Best practice suggests that a timely review is one that is performed in the month following the month for which the reconciliation is prepared.</p>	2019 interim	<p>Closed</p> <p>During our interim audit work for the ending 30 June 2020 we noted significant improvement in the timeliness of general ledger reconciliations. We did however note the December 2019 payroll reconciliations were not prepared and reviewed until February 2020.</p> <p>We understand that due to the Christmas shut down period, not all reconciliations were able to be prepared and reviewed timely.</p> <p>We have closed the matter as management has accepted the additional risk this may present to organisation.</p>
Sensitive expenditure policy		
<p>We have noted a few areas for improvement and recommend the Council updates the Policy to include these best practice recommendations.</p>	2019 interim	<p>Closed</p> <p>The Regional Council has updated the policy. We have reviewed the policy against good practice in the sector and deem this to be appropriate.</p>
Disposal of fixed assets		
<p>We recommended that the Disposal Form be completed for all asset disposals, and appropriate authorisation is documented to confirm the disposal.</p>	2019 interim	<p>Closed</p> <p>We sighted a spreadsheet of sale information, with appropriate review.</p>

Recommendation	First raised	Status
Establishment of Toi Moana Trust		
We recommend that appropriate consultation is undertaken to comply with the Local Government Act for any future CCOs that are set up.	2019 interim	Closed Toi Moana Trust was established in 2019 and no new entities requiring consultation have been set up in 2020.
Sensitive expenditure - Breach of policy		
We recommended the Council complies with its own policies in relation to sensitive expenditure.	2019 interim	Closed We noted one instance where alcohol was reimbursed through a staff reimbursement, this is not permitted under the Council's policies. However, our understanding is this was pre-approved as an exception to policy. Management comment

Recommendations that will be followed up at final

We intend to follow up on the status of this recommendation at our final audit visit

Recommendation	First raised	Status
Necessary		
River and drainage flood damage		
We recommended that the impairment is assessed and adjusted for capital works completed at each year-end.	2019 interim	To be followed up during the final audit.
Capitalisation of fixed assets		
We recommended WIP is reviewed on a regular basis and an assessment made whether capitalisation is required, with assets being capitalised when they are available for use. We further recommended, where assets are capitalised from WIP, the Council ensures there is evidence to support the approval of the capitalisation occurring and depreciation is accurately calculated.	2019 Final	To be followed up during the final audit.

Preparation of service delivery performance information		
We recommended the Council continues to add to the narratives in its performance reporting to better describe why the Council has “achieved” the results reported so that the reader can further understand the performance of the Council	2019 Final	To be followed up during the final audit.
Redundancies and payments in lieu of notice		
<p>We recommended that all payroll related payments are calculated and paid in accordance with the agreements between the Council and the employee.</p> <p>We also recommended that all redundancy payments are correctly coded to the general ledger.</p>	2019 interim	To be followed up during the final audit.

Appendix 2: Adoption of new accounting standards

Mixed group issues

The Bay of Plenty Regional Council is consolidated into a public benefit entity (PBE) group. In submitting information to the parent for consolidation purposes, consolidation adjustments may be necessary due to the different for-profit and PBE accounting requirements for revenue, financial instruments, and leases.

Adjustments that arise on transition to the new for-profit standard, that is NZ IFRS 16 *Leases*, will need to be assessed as to whether they need to be reversed for PBE consolidation purposes.

We encourage management to discuss these “mixed group” reporting issues with the consolidating subsidiary.

Appendix 3: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carry out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Bay of Plenty Regional Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>To date, other than the audit, we have no relationship with, or interests in, the Bay of Plenty Regional Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$134,147, as detailed in our Audit Proposal Letter.</p> <p>To date, other fees in the period are \$6,000, for the debenture trust deed engagement.</p> <p>There was also an audit fee for the subsidiary, the Quayside Group.</p>
Other relationships	<p>To date, 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 the Bay of Plenty Regional Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations to date where a staff member of Audit New Zealand has accepted a position of employment with the Bay of Plenty Regional Council or its subsidiaries during or since the end of the financial year.</p>

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

PO Box 621
Tauranga, 3144
Phone: 04 496 3099

www.auditnz.parliament.nz



