

Report to the Council on the audit of Canterbury Regional Council

For the year ended 30 June 2018

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Key messages

We have completed the audit for the year ended 30 June 2018. This report sets out our findings from the audit and draws attention to areas where Canterbury Regional Council (hereinafter referred to as “Environment Canterbury”) is doing well and where we have made recommendations for improvement.

This report complements our Report to the Council on our interim audit dated 11 June 2018.

Audit opinion

We intend to issue an unmodified audit opinion on Environment Canterbury’s financial statements and statement of service performance on 18 October 2018.

Matters identified during the audit

This report focuses mainly on the audit risks and issues identified in our audit plan, how we addressed these during the audit, and the outcome from our audit responses.

We recommended that Environment Canterbury should update its procurement and tendering policy by explicitly prohibiting a staff or Councillor from acting as a referee for a supplier or tenderer.

We note that Environment Canterbury has addressed many of the previous recommendations raised in our prior year’s audit or from our current year’s interim audit visit. The interim audit focused on Environment Canterbury’s control environment and systems of internal controls. A summary of the previous recommendations that were resolved during the year is included in Section 1.

Our Information Systems Audit and Assurance (ISAA) team performed a further visit during March 2018 to review the IT General Controls in place at Environment Canterbury. This review focussed on assessing the design effectiveness of activity-level control processes, such as network security, data management, and incident management. The results are included in our Report to the Council dated 11 June 2018.

Thank you

We would like to thank the Council, management and staff, in particular Wendy Gainford and Katherine Harbrow for their assistance during the audit.



Julian Tan
Appointed Auditor
4 October 2018

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 have developed the following priority ratings for our recommended improvements.

Priority	Explanation
Urgent	<p>Needs to be addressed <i>urgently</i></p> <p>These recommendations relate to a significant deficiency that exposes Environment Canterbury 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 Environment Canterbury 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

Other than the recommendation on updating Environment Canterbury’s procurement and tendering policy by prohibiting a staff or Councillor from acting as a referee for a supplier or tenderer, we have not raised any other new recommendations from our final audit.

Recommendation	Reference	Priority
<p>Procurement and tendering policy</p> <p>We recognise that a PwC report into a tender process is being undertaken and the report has not been finalised. We are aware that PwC is likely to recommend improvements to strengthen the documentation of some tendering processes.</p> <p>In the meantime, Environment Canterbury should update its procurement and tendering policy by explicitly prohibiting an employee or Councillor from acting as a referee for a supplier or tenderer.</p>	4.2	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous years' recommendations.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open recommendations	-	1	-	1
Total	-	1	-	1

Appendix 1 sets out the status of previous years' recommendations in detail.

2 Our audit report

2.1 Unmodified audit report



We intend to issue an unmodified audit report on 18 October 2018. This means we were satisfied that the financial statements and statement of service performance present fairly Environment Canterbury's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters. Refer to Sections 3 and 4 for further detail on these matters.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we discussed with management any misstatements that we found, other than those which were clearly trivial.

There were no significant misstatements identified during the audit that were not corrected.

2.3 Uncorrected statement of performance reporting misstatements

There were no significant performance reporting misstatements identified during the audit that were not corrected.

2.4 Corrected misstatements

During the audit there were a small number of adjustments and amendments within the draft financial statements. We have not reported these as corrected misstatements. Rather they tended to be minor edits of a presentation and disclosure nature, such as enhanced wording in a policy or note, that were agreed upon by management and us.

2.5 Quality and timeliness of information provided for audit



Management is required to provide information for audit relating to the annual report of Environment Canterbury. This includes the draft annual report with supporting working papers. We received the draft annual report within the agreed audit timeframe.

There were no concerns with the timeliness or the quality of the draft annual report and supporting information provided by management. Most of the audit information was provided to us within the agreed time. The draft annual report was of good quality and had been subject to a quality assurance review prior to submitting to audit. This is evidenced by the minimal changes between the draft and final financial statements.

3 Matters raised in the audit plan



In the table below, we set out the outcome of our response to the main audit risks and issues advised to the Council in our audit plan dated 11 June 2018:

Audit risk/issue	Outcome from our audit response
Property, plant and equipment (PPE) carried at fair value	
<p>Environment Canterbury periodically revalues its fixed assets. PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount of the assets does not differ materially from the fair value.</p> <p>Environment Canterbury should formally assess and document whether a revaluation is needed for an asset class this year. It is important to make this assessment at an early stage.</p> <p>If a revaluation of PPE is required, we expect Environment Canterbury to perform and manage the valuation properly. This is because a revaluation of PPE involves the use of significant judgements and estimates and therefore, it presents a potential risk of misstatement in the financial statements.</p>	<p>PPE was not revalued in the current financial year.</p> <p>We reviewed Environment Canterbury's assessment on whether the carrying values for the asset classes that are not revalued are materially different from their fair values.</p> <p>There are no significant differences between the carrying amount and the fair value. We therefore consider that PPE is fairly stated in the financial statements.</p> <p>We also reviewed Environment Canterbury's accounting treatment of its PPE and we are satisfied that the treatment is in accordance with PBE IPSAS 17.</p>
Audit of Environment Canterbury's debenture trust deed	
<p>As Environment Canterbury's appointed auditor, we will also issue a report to the trustees of its debenture trust deed. This requirement is included in Environment Canterbury's trust deed dated 21 September 2015.</p> <p>We are required to issue our report to the trustees within 30 days of signing the annual report.</p>	<p>We confirmed that Environment Canterbury has complied with the key requirements of its Trust Deed, as detailed in the Reporting Certificate.</p> <p>We also confirmed that Environment Canterbury had no defaults on its debt during the reporting period.</p> <p>The Trustees had the Register audited, in accordance with the Financial Markets Conduct Regulations 2014. We obtained a copy of the audit report issued by the independent auditor, Grant Thornton.</p>

Audit risk/issue	Outcome from our audit response
	There was no impact on our assurance report nor any information that we need to bring to the Council's or the OAG's attention.
Management override	
<p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.</p> <p>Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud.</p>	<p>To address the risk of management override we:</p> <ul style="list-style-type: none"> • Designed and performed audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Reviewed accounting estimates (such as employee entitlements, depreciation, and revenue WIP) for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Reviewed significant transactions that were outside the normal course of business. <p>Based on our audit procedures, there were no instances of management override noted during the year.</p>

4 Other key business issues

4.1 Total mobility scheme

The total mobility scheme is available to people in Greater Christchurch, Ashburton, Timaru and Waimate. Eligible individuals are entitled to discounts that give them 50 per cent off transport fares with approved operators (up to a maximum of \$35 per trip)

Environment Canterbury was in the media in August 2016, having identified concerns in relation to the total mobility scheme. The scheme provides subsidised taxi services to people who have an impairment preventing them from using the bus service.

Subsequent to this, the scheme was reviewed internally by the Passenger Transport team in consultation with the New Zealand Transport Agency (NZTA) to determine if all the Deloitte's recommendations were addressed.

Environment Canterbury investigated the root causes of the findings and updated its processes. Management discussed and reviewed the updated processes with NZTA.

These findings led to a number of interactions and negotiations with the relevant taxi companies and resulted in payments being made by the taxi companies. We reviewed the payments received and confirmed that these have been correctly accounted for in the financial statements. We consider the matter regarding the total mobility scheme closed.

4.2 Independent review of the tender process

Concerns were raised by a contractor about the awarding of the Nassella Tussock tender contract. This has resulted in Environment Canterbury engaging PricewaterhouseCoopers (PwC) to investigate and review the tender process for this contract. As the review has not been finalised, management should keep us informed on the progress of this investigation.

Recommendation

We recognise that PwC's review into the tender process is being undertaken and the review report has not been finalised. We are aware that PwC is likely to recommend improvements to strengthen the documentation of some tendering processes.

In the meantime, Environment Canterbury should update its procurement and tendering policy by explicitly prohibiting an employee or Councillor from acting as a referee for a supplier or tenderer.

Management comments

The procurement team is reviewing processes regarding tendering, reviewing the internal website and updating our policies appropriately.

4.3 Rates

Rates are Environment Canterbury's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates-setting and collection is critical to ensure that rates are correctly set.

We reviewed Environment Canterbury's compliance with aspects of the LGRA. As part of this review, we considered the consistency and completeness of the rates resolution and the Funding Impact Statement.

Compliance with the legislation remains Environment Canterbury's responsibility. Our review was completed for the purpose of expressing our audit opinion and is not a comprehensive legal review.

Based on our review, we did not identify any breach of legislation regarding compliance with rates and the rating processes.

4.4 Mandatory performance measures

Environment Canterbury reported against the mandatory performance measures that were included within the 2015-25 LTP.

We reviewed the systems that Environment Canterbury has in place to be able to report against these measures. We found for material performance measures, Environment Canterbury's systems were able to appropriately record and report performance against these measures.

We also reviewed all of the service performance information included in the annual report for completeness and reasonableness. We were satisfied the reported results in the annual report are reasonable and complete.

4.5 Compliance with the Holiday Acts 2003

Due to recent media attention, holiday pay accuracy has become a contentious issue within New Zealand. Holiday pay can be calculated in two ways (either based on ordinary weekly pay at the beginning of the holiday or the average weekly earnings over the previous 12 months).

Employers must pay the greater amount to the employee. Issues have also arisen around calculating it on the basis of what is in the employee's contract, compared to what they actually were earning as a result of changed hours, for example.

Issues often arise due to the payroll systems and processes not correctly calculating leave payments because the system calculations and formulae used do not easily fit each employee's individual circumstances and work patterns.

This is an area that Council should be assuring themselves over and confirming that they are correctly and accurately paying staff what they are entitled to under the Holidays Act 2003.

5 Public sector audit



The Council is accountable to Parliament, its local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way Environment Canterbury said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we considered if Environment Canterbury has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- Environment Canterbury carrying out its activities effectively and efficiently;
- Environment Canterbury incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by Environment Canterbury or by one or more of its members, office holders, or employees; or
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

6 Useful publications



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

Description	Where to find it
Client updates	
<p>In March 2018, we hosted a series of client updates. The theme was “Our high performing and accountable public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p>	<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>
Data in the public sector	
<p>The Office of the Auditor-General (the OAG) has published a series of articles about how data is being used in the public sector. These cover:</p> <ul style="list-style-type: none"> • functional leadership; • building capability and capacity; • collaboration; and • security. <p>These articles may be of use to Environment Canterbury.</p>	<p>On the OAG’s website under publications.</p> <p>Link: Data in the public sector</p>

Description	Where to find it
Matters arising from the 2016/17 audits	
<p>The OAG has published a report on the results of the 2016/17 audits for the sector.</p> <p>These articles may be of use to Environment Canterbury.</p>	<p>On the OAG's website under publications.</p> <p>Link: Recent publications</p>
Infrastructure as a service	
<p>The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved.</p>	<p>On the OAG's website under publications.</p> <p>Link: Infrastructure as a Service</p>

Appendix 1: Status of previous recommendations

Recommendation	First raised	Status
Beneficial		
<p>Monitoring of ground leases</p> <p>Environment Canterbury is currently in collaboration with other Councils to develop and procure an asset management system to monitor assets.</p>	<p>2016</p>	<p><i>Environment Canterbury has committed to Adapt Solutions for our Asset Management System. We are currently in the development and test stage for our Fleet assets. This asset class will go live in December 2018, replacing all existing registers and reporting. The next asset class will be the property assets. The implementation phases will be completed within the current financial year.</i></p>

Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried 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 and reporting that opinion to you. 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 carried 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 is immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of Environment Canterbury 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>In addition to our audit of the audited information and our report on the disclosure requirements, we have audited Environment Canterbury’s 2018 -28 long-term plan, we completed an agreed-upon procedures engagement and reported on Environment Canterbury’s annual reporting certificate to the debenture trustee. These engagements are compatible with those independence requirements.</p> <p>Other than these engagements, we have no relationship with, or interests in, Environment Canterbury.</p>

Area	Key messages
Fees	<p>The audit fee for the year is \$120,689, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are:</p> <ul style="list-style-type: none"> • \$5,000, for the Limited Independent Assurance Report in respect of Environment Canterbury's Debenture Trust Deed. • \$5,000 for the agreed upon procedures engagement in respect of funding received from the Ministry for the Environment for the Freshwater Improvement Fund.
Other relationships	<p>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 Environment Canterbury that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with Environment Canterbury during or since the end of the financial year.</p>

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

PO Box 2
Christchurch 8140

www.auditnz.govt.nz

