

Interim Management Report on the audit of

**Rodney District Council**

for the year ending 30 June 2009

**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 District Council and management.**

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# Interim management report

for the financial audit for the year ending 30 June 2009.

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Audit New Zealand has completed the interim audit of the Rodney District Council (the District Council) for the year ending 30 June 2009. This report summarises our findings from the interim financial audit and draws attention to areas where your organisation is doing well or could improve.

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**AUDIT NEW ZEALAND**  
Mana Arotake Aotearoa

## 1 Introduction

We have completed our interim audit of Rodney District Council (the District Council) for the year ending 30 June 2009.

The primary purpose of our audit was to update our understanding of the District Council's control environment and gain a better understanding of the issues facing the District Council and how these are being addressed. We also reviewed the internal control systems and, where appropriate, tested those systems to confirm that the key controls identified operated effectively throughout the period. We use this information in planning our final audit.

This report provides a summary of:

- our audit progress to date;
- our assessment of the environment, systems and controls for measuring financial and service performance;
- our assessment of the District Council's management control environment; and
- the significant findings arising out of our interim visit.

## 2 Audit progress to date

The following summarises the significant areas we covered during our interim audit; namely:

- Management Control Environment.
- Review of the Information Systems Control Environment.
- Review of the District Council and Audit Committee minutes.
- Review of Systems of Internal Control:
  - Expenditure
  - Payroll
  - Revenue / receipting
  - Property, Plant and Equipment additions, disposals and depreciation
  - Journals.
- Sensitive Expenditure Testing encompassing:
  - Credit Card Expenditure
  - Expense Claims

- Severances and Redundancies.

During our final audit visit we will update and complete our testing in respect of the above matters.

### 3 Assessment of District Council's management control environment

We performed a high level review of the District Council's management control environment. In particular, we considered the overall attitude, awareness and actions of the District Council and management in establishing and maintaining effective management procedures and internal controls.

Our assessment of these areas was based on interviews with:

- key senior management, and
- our knowledge of the District Council's business.

We have assessed the management control environment as "effective". Factors we have taken into account in coming to this conclusion include:

- the District Council's budgeting, monitoring and forecasting procedures are sufficiently robust for us to place reliance on them for the

purposes of our audit of the District Council's financial statements

- Our review of the expenditure, payroll, receipting and general ledger reconciliation systems confirmed that key controls are in place and operating effectively such that we can place reliance on these systems for the purposes of our audit of the District Council's financial statements.
- Our review of the District Council's management of organisational risk with regards to information systems has confirmed that, overall, the District Council has the processes in place to manage the District Council's key risks.

We note that the District Council currently does not have a fraud policy. This was discussed with the senior management during our planning meeting. We will update our understanding of progress made to prepare a policy during our final audit.

Specific systems, procedures and sample transactions tested during our interim audit included accounts payable, payroll, some revenue systems, accounts receivable and general ledger reconciliations. We will conduct further testing of these systems at the final audit to confirm our continued reliance on the control environment.

There are some areas within these and other systems that, if improved, would strengthen the management control

environment. These areas are discussed further in section 4 below.

**Management comment**

## **4 Key audit findings**

### **4.1 Compliance with District Council's Treasury Policy**

We considered whether the District Council is complying with its Treasury Policy and noted that the District Council's debt facilities have fallen outside the Treasury Policy maturity limits since May 2008, with too much debt in the 0 - 3 years category and too little debt in the 3 - 5 year category. The reason given by the Treasury Accountant is that, since the credit crunch, it has not been possible to borrow through the issue of Floating Rate Notes with a duration of 3 years or more. Additionally, in September 2008 and April 2009, the maturity of the District Council's fixed debt also fell outside the Treasury Policy maturity limits, with too little debt in the 3 - 5 year category.

The District Council needs to consider any implications of this non compliance, eg whether this gives rise to a breach of any borrowing conditions or covenants and

therefore causes its borrowings to become repayable on demand.

In addition, in setting policy in future, the District Council may need to consider whether it is prudent to 'leave room' for events such as sudden shifts in markets.

**Management comment**

### **4.2 Sensitive expenditure**

Sensitive expenditure is an area of high public interest. Clear policies help to ensure that staff and the wider community have confidence that the District Council is utilising public money appropriately.

We undertook a review of sensitive expenditure areas as noted in section 2. We reviewed a selection of policies against the OAG good practice guide "Controlling sensitive expenditure: Guidelines for public entities" and selected a sample of transactions to test against these policies. The following issues were noted:

- Our review of credit card statements identified 2 credit card statements, each relating to the Director, Corporate Services, where the expenditure incurred had been authorised by the cardholder. We understand that all credit card invoices /statements should be signed off as approved for payment by

the Director, Corporate Services. However, in the case of his own corporate credit card, the Director's credit card statements should be approved by the CEO (in line with the "one up" principle).

- Under the current credit card policy, the CEO's credit card invoices/statements should be signed off as approved for payment by the Director, Corporate Services. We recommend that the CEO's credit card expenses should be approved by the Chair of the newly formed Audit Committee.
- The current expense claim policy does not mention the need to state clearly the business purpose of the expenditure. Where the business purpose is not clear from the supplier documentation supporting the claim, a written statement of the purpose should be included as part of the claim.

#### **Management comment**

### **4.3 Conflict of interest declarations**

We understand that new Councillors are briefed by the Democracy Services team in relation to the standard declaration forms that they must complete,

whereby they note any interests that they have in any business, company, trust etc. These signed declarations are then filed for future reference. We note from our discussions with management that a register is not maintained except for the filed declarations, which are not updated since originally signed.

In previous years, we have highlighted the need to maintain an interest register to ensure that any potential conflicts of interest are recorded. The District Council has resolved not to address the recommendation on the basis that this is not required by legislation.

Recognising the District Council's response in the previous year, we recommend that, alternatively, a conflict of interest declaration be included as an agenda item for each District Council meeting. This will ensure that any potential conflicts of interest are identified and addressed accordingly during the District Council meeting.

#### **Management comment**

### **4.4 General ledger reconciliations**

We reviewed monthly reconciliations for bank, accounts receivable, creditors and fixed assets.

We noted that in some instances bank and fixed assets reconciliations were not evidenced as independently reviewed. Signing and dating reconciliations as checked

provides evidence that reconciliations are being independently reviewed in a timely manner.

We remind the District Council that reconciliations should be prepared and reviewed on a timely basis, evidenced by signature and a date. Reconciling items should be cleared on a timely basis.

**Management comment**