

**Report to the Council
on the interim audit of**

Tauranga City Council

For the year ended 30 June 2023

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Key messages

We have completed our interim audit for the year ended 30 June 2023. This report sets out our findings from the interim audit.

We worked with Council staff throughout the organisation to update the systems descriptions and performed walkthroughs of processes as necessary. This included the systems relating to some service performance measures.

We identified one area for improvement during this audit visit – for management to formally undertake a fraud risk assessment each year. We also reviewed a number of prior year interim visit audit recommendations, with a number in progress and four resolved at the time of writing. The remainder of the recommendations will be updated during our final visit.

Thank you

We would like to thank management and staff for being well prepared for our audit visit. The prompt provision of the information we requested, and staff making themselves available for meetings with audit staff, contributed to a relatively short audit visit.



Leon Pieterse
Appointed Auditor
22 August 2023

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	Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the City Council to significant risk or for any other reason need to be addressed without delay.
Necessary	Address at the earliest reasonable opportunity, <i>generally within six months</i> 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.
Beneficial	Address, <i>generally within six to 12 months</i> These recommendations relate to areas where the City Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

1.1 New recommendations

The following table summarises our recommendations and their priority:

Recommendation	Reference	Priority
Undertake a formal fraud risk assessment on an annual basis.	2.2.1	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations related to our interim audit work. Appendix 1 sets out the status of previous year's recommendations in detail.

Previous recommendations	Priority			
	Urgent	Necessary	Beneficial	Total
Recommendations from 30 June 2022 report				
New recommendations in 30 June 2022 report	0	10	0	10
Implemented or closed	0	(4)	0	(4)
Total outstanding after June 2023 interim visit	0	6	0	6
Recommendations from 30 June 2021 and earlier				
Open recommendations from 2021 and earlier	0	12	2	14
Implemented or closed	0	(2)	0	(2)
Total outstanding after June 2023 interim visit	0	10	2	12
Total of all open recommendations after June 2023 interim visit	0	16	2	18
Outstanding items noted above that status will be confirmed as part of the final audit work *	0	11	2	13

* **NOTE:** As detailed in Appendix 1, 13 of the 18 open recommendations will be reviewed and updated during our final audit i.e. it has not been tested as part of our interim audit.

2 Assessment of internal control



The Commissioners, 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 Commissioners 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 and maintained. The elements of the control environment provide an appropriate foundation for other components of internal control.

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 Commissioners 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.

We identified one new issue to bring to your attention below. We have updated prior year issues in Appendix 1.

Overall, we assess the controls in each system are capable collectively of preventing or detecting and correcting material misstatements.

2.2.1 Formal fraud risk assessment

Our enquiries with management identified there was no formal fraud risk assessment undertaken for the 2022/23 period. A formal risk assessment process helps management to identify any new areas of fraud risk and to consider if the risks in the prior period remain relevant. Formally documenting the risks, and managements response to those risks, sets clear expectations for management oversight and enables management to be flexible in its approach and vigilance against fraudulent activity of all kinds.

We recommend management undertake a formal fraud risk assessment on an annual basis.

Management comment

TCC have various ongoing work related to managing the risk of Fraud including:

- *Corporate Risk COR27 (Fraudulent / corrupt behaviour by staff / contractors) reviewed regularly with Manager: Legal, Risk & Procurement and the GM: Corporate Services.*
- *Recent Internal Audit of current fraud controls.*
- *Ongoing work related to our 'Integrity Framework' of policies including Code of Conduct, Protected Disclosures, Sensitive Expenditure, Fraud, etc.*
- *Planned Internal Audit review of 'financial behaviours' – i.e., how people go about checking and approving e.g. purchase orders in SAP.*

As the risk of fraud is not currently evaluated as 'Critical' it is not highlighted on our current reporting to the Exec or Strategy, Finance & Risk Committee. To raise awareness of the risk at Exec level the Team Leader Risk will take the action to include risk of fraud as an item in their next quarterly report to Exec (and at least annually going forward), to be discussed at the meeting when the report is reviewed.

3 Useful publications



Based on our knowledge of the City Council, we have included some publications that the City Council and management may find useful. A number of other publications are available on our website for reference purposes and links for key matters that may be relevant to the City Council were included in the prior year report issued on 23 January 2023.

Description	Where to find it
Local government risk management practices	
<p>The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management.</p>	<p>On the Office of the Auditor-General’s website under publications.</p> <p>Link: Observations on local government risk management practices</p>
Good practice	
<p>The OAG’s website contains a range of 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>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Payroll users with privilege access.		
<p>Review the list of 'Master' and 'TCC Master' users in the payroll system and ensure only staff who require such access are given privileged access rights.</p>	<p>2021/22</p>	<p>Outstanding</p> <p>There have been no changes to the system, based on discussions with staff while doing the system description review.</p> <p>Management Comment</p> <p><i>The CHRIS access has been reviewed and each employee that has access has it limited to their role.</i></p> <p><i>The HR team have advised a lot of work was carried out last year to minimise and restrict access to only those staff that absolutely required access.</i></p> <p>Auditor response</p> <p>Our discussions indicated there were still segregation of duties risks, despite the HR commentary above that they only had required access.</p> <p>We will re-visit this at our final audit and discuss with management to consider if they wish to accept any residual risk as a result of segregation of duties.</p>
Reconciliations are not prepared/reviewed in a timely manner.		
<p>All reconciliations are reviewed within one month of month end.</p>	<p>2021/22</p>	<p>Outstanding</p> <p>We noted five out of ten reconciliations reviewed were not either not prepared or not reviewed in a timely manner.</p> <p>Management Comment</p> <p><i>A complete review of the Month End Reconciliation process has been carried out and reconciliations are now completed by the 20th Month following and then reviewed by the last day of the following month.</i></p> <p><i>Due to resource shortages in the accounting teams, and very long Annual report process the reconciliations for first six months were not carried out in a timely manner.</i></p>

Recommendation	First raised	Status
Necessary		
Generic log-on accounts for Digital Services' IT support partner.		
Reconsider the practice of issuing generic log-on accounts and instead issue named or unique accounts.	2021/22	To be updated during our final audit visit
Periodic restore testing of backups (IRC).		
Restore testing of back-ups be formalised and documented appropriately.	2021/22	To be updated during our final audit visit
Property plant and equipment assets		
Property plant and equipment assets are assigned to classes of similar nature, rather than on functional basis, unless the intention is to revalue all the assets in the class at the same time.	2021/22	To be updated during our final audit visit
Information systems – generic log-ons		
Reconsider the practice of issuing generic log-on accounts and instead issue named or unique accounts. If a business decision is made to continue with the current practice, appropriate security controls need to be implemented.	2021/22	To be updated during our final audit visit
Assets in use with no book value		
Review the useful lives for all assets that remain in use beyond their recorded useful lives.	2020/21	To be updated during our final audit visit
Information systems - network user access		
Review all network accounts and remove redundant accounts. Remove elevated access accounts for re-approval by management.	2020/21	To be updated during our final audit visit
Development contributions		
All internal audits and checks to be documented so that the review process is clear and compliance with council policy is implemented correctly.	2020/21	To be updated during our final audit visit
Information systems – Formalise performance monitoring and reviews of third-party IT providers		
Designate an individual to be responsible for regular monitoring and reporting on the achievement of third-party performance.	2020/21	To be updated during our final audit visit

Recommendation	First raised	Status
Necessary		
Suspense account reconciliations		
<p>Ensure reconciling items are cleared in a timely manner, ideally within one month.</p>	<p>2019/20</p>	<p>Outstanding</p> <p>Our review identified three, out of four reconciliations tested, did not have the reconciling items corrected in a timely manner.</p> <p>Management Comment</p> <p><i>A complete review of the Month End Reconciliation process has been carried out and reconciliations are now completed by the 20th Month following and then reviewed by the last day of the following month. Due to resource shortages in the accounting teams, and very long Annual report process the reconciliations for first six months were not carried out in a timely manner.</i></p>
Interest register declarations.		
<p>All interest declarations are updated and complete.</p>	<p>2019/20</p>	<p>Outstanding - In progress</p> <p>Our search of the Companies Office register identified some interests were not declared.</p> <p>We understand council staff will be undertaking a search of the Companies Office register as part of the end of financial year process. We will confirm this as part of the final audit visit.</p>
Performance measures		
<p>We recommended:</p> <ul style="list-style-type: none"> • sufficient details and clearer descriptions are provided in the report for each event to help the data processor and reviewer make informed judgments on whether the event has met the criteria of the performance measure per DIA guidance; • record and use the number of connections as per 30 June for three waters related performance result calculation; • regularly review the event report and adjust types of events accordingly. This is to ensure three-waters issues have been correctly differentiated and classified; and 	<p>2019/20</p>	<p>To be updated during our final audit visit</p>

Recommendation	First raised	Status
Necessary		
<ul style="list-style-type: none"> regularly review the event report and ensure all private nature related events are removed from year-end population. 		
Information systems (IS) – process for ensuring application access is appropriate		
Improve the processes for adding and amending user access to all council applications.	2018/19	To be updated during our final audit visit
P-Card policy – cancellation or destroying cards		
Document the process for cancelling and destroying P-Cards to align with the OAG's guidelines for sensitive expenditure.	2017/18	Outstanding - In progress The Sensitive Expenditure policy is being reviewed and is due to be considered by council in September 2023.
Information systems – contractor compliance with council policies		
Contractors be required to attend security briefings and training. To ensure they are aware of ICT practices.	2017/18	To be updated during our final audit visit
Beneficial		
Asbestos assessment		
Develop a formal plan be that includes a list of the buildings to be reviewed, the outcome of the review, the process to address any issues identified and the financial implications of those issues.	2018/19	To be updated during our final audit visit
Revaluation of infrastructure assets and marine assets		
Implement an action plan to address the recommendations made by the valuer.	2018/19	To be updated during our final audit visit

Implemented or closed recommendations

Recommendation	First raised	Status
<p>Valuation of vested assets</p> <p>A process is established to consider fair value at the time of recognising vested assets.</p>	2021/22	<p>Closed</p> <p>We understand a review is done over the vested asset values provided by the developer and compared to other similar projects/assets previously recognised by council. This assesses the reasonableness of the developer's costs, prior to formally capitalising the assets.</p>
<p>Timely recognition of vested assets</p> <p>Appropriate controls are put in place to ensure the timely recognition of vested asset.</p>	2021/22	<p>Closed</p> <p>We understand finance is advised when 224 certificates are provided, which triggers the first part of the capitalisation process. Vested assets are capitalised each month.</p>
<p>Group instructions</p> <p>Provide group instructions to group entities.</p>	2021/22	<p>Closed</p> <p>Group instructions were issued on 31 May 2023 for the 30 June 2023 financial statements.</p>
<p>Minutes on the website.</p> <p>Minutes of all Commissioner meetings are made available for public review wither immediately after the next meeting when they have been confirmed, or within one month, and labelled as draft if no confirmation has occurred at the next meeting.</p>	2021/22	<p>Closed</p> <p>Auditor noted draft minutes were being published on the website within two weeks of a meeting.</p>
<p>Classification of Fixed Asset Register</p> <p>Management ensures alignment between the classification of the asset purpose and the classification under which it is disclosed and recorded.</p>	2020/21	<p>Closed</p> <p>Was replaced by Property Plant and Equipment Assets recommendation in 2022/22.</p>
<p>Outdated policies – project management and fraud</p> <p>Policies are reviewed and updated on a regular basis.</p>	2017/18	<p>Closed</p> <p>The fraud policy was updated on 7 December 2022 and our review this year did not highlight any issues to bring to your attention.</p> <p>Council replaced the project management policy with a digital tool – Capital Project Management.</p>

Appendix 2: 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 City 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: International Code of Ethics for Assurance Practitioners, 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 City Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is still to be confirmed.</p> <p>To date, no other fees have been charged in this period.</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 City 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 City Council or its subsidiaries during or since the end of the financial year.</p>

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