

Audit, Finance & Risk Committee

6 March 2025

Report for Agenda Item | Rīpoata moto e Rāraki take [6]

Department: Assurance, Finance & Risk

Title | Taitara: External Audit Report March 2025

Purpose of the Report | Te Take mō te Pūroko

The purpose of this report is to provide the Audit, Finance & Risk (AFR) Committee with a summary of observations made by Deloitte in the Management Letter for the year ended 30 June 2024.

Recommendation | Kā Tūtohuka

That the Audit, Finance & Risk Committee:

1. **Note** the contents of this report.

Prepared by:



Name: Mariano Niveiro
Title: Internal Assurance Lead
13 February 2025

Reviewed and Authorised by:



Name: Katherine Harbrow
Title: GM – Assurance, Finance & Risk
13 February 2025

Context | Horopaki

1. In accordance with normal practice, Deloitte evaluated and provided comments on certain internal controls and accounting practices which came to its attention during the audit of the consolidated financial statements of the Queenstown Lakes District Council (the “Council” or “QLDC”) and its subsidiaries (the “Group”) for the year ended 30 June 2024. The matters raised in this report have been discussed and agreed with management of the Group and their comments have been included. Findings in respect of Queenstown Airport Corporation have been distributed and communicated to their board.
2. Deloitte’s audit was not designed to provide assurance as to the overall effectiveness of the controls operating within the Group, although it has reported to management any recommendations on controls that it identified during its audit work. The matters being communicated are limited to those deficiencies that Deloitte has identified during the audit and that Deloitte has concluded are of sufficient importance to merit being reported.
3. Deloitte has provided a written consent for this report to be made available to third parties.

Analysis and Advice | Tatāritaka me kā Tohutohu

4. The following is the “Executive Summary” from the Management Letter (the full report is attached – **Attachment A**) outlining the observations identified during the assessment process.

Current Period Improvement Points

Observation	Area	Rating	Ease of Fix
Improvement points			
Review of journals	General	Moderate	Medium
Lack of review of journal entries	General	Moderate	Medium
Cyclical Review of Company Policies	General	Moderate	Simple
Debenture Trust Deed Reporting	General	Moderate	Simple
Interest register review/update	General	Moderate	Simple
Roading and 3waters – data quality improvements	Infrastructure PPE	Low	Medium
Aged bonds	Liabilities	Low	Simple
Depreciation – Useful Life Estimates	Depreciation	Low	Simple
Supplier changes review	Liabilities/Expenses	Low	Simple
Bank reconciliations	Assets	Low	Simple
Information technology improvement points			

Observation	Area	Rating	Ease of Fix
New user Provisioning-Access rights are mirrored from an existing user.	IT	Moderate	Simple
Access Security- User Access de-provisioning	IT	Low	Simple
Access Security- Authentication- Process Improvement only	IT	Low	Simple

5. **Status of Deloitte's Observations:** Out of the 13 observations made by Deloitte, based on management's responses:
- **5 observations** are currently in progress.
 - **7 observations** have been fully implemented.
 - **1 observation** has not yet been started.
6. Details of management's responses are provided in **Attachment A**.
7. Options have not been presented as this report is for noting purposes only.

Consultation Process | Hātepe Matapaki

Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka

8. This matter is of low significance, as determined by reference to the Council's Significance and Engagement Policy because it will not:
- significantly impact on the environment, culture and people of the district
 - significantly affect individuals, organisations, groups and sectors in the community
 - be inconsistent with existing policy and strategy.
 - significantly impact the objectives set out in the Financial Strategy, Long Term Plan and Annual Plan

Māori Consultation | Iwi Rūnaka

9. As the significance of this matter is low, no consultation with the community or local iwi is required.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

10. This matters relate to the following risks within the QLDC Risk Register.
- RISK10035 Ineffective business processes in the Business Continuity risk category. This risk has been assessed as having a moderate residual risk rating.
11. The recommended risk mitigation options provided by Deloitte, along with QLDC management's responses regarding their implementation, are detailed in Attachment A.

Financial Implications | Kā Riteka ā-Pūtea

12. There are no direct financial implications associated with this matter.

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

13. The following Council policies, strategies and bylaws were considered:

- QLDC Risk Management Policy
- Fraud Policy
- Climate Action Plan
- Vision 2050
- QLDC Long Term Plan
- QLDC Spatial Plan
- 30 Year Infrastructure Strategy
- Conflict of Interest Policy

14. This matter supports the Long Term Plan/Annual through ensuring that effective assurance and mitigations are in place that support risks that could impact planned objectives.

Local Government Act 2002 Purpose Provisions | Te Whakatureture 2002 o te Kāwanataka ā-Kiaka

15. Section 10 of the Local Government Act 2002 states the purpose of local government is (a) to enable democratic local decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future. This audit report enhances democratic decision-making by ensuring transparency and accuracy in financial management, and it promotes economic well-being by recommending improvements to the efficiency and effectiveness of assurance, controls and processes. As such, the recommendation in this report is appropriate and within the ambit of Section 10 of the Act.

16. The recommended option:

- Can be implemented through current funding under the Long Term Plan and Annual Plan;
- Is consistent with the Council's plans and policies; and
- Would not significantly alter the intended level of service provision for any significant activity undertaken by or on behalf of the Council or transfer the ownership or control of a strategic asset to or from the Council.

Attachments | Kā Tāpirihaka

A	Deloitte - Management Letter Report for the year ended 30 June 2024
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Attachment A

Deloitte - Management Letter Report for the year ended 30 June 2024

Executive Summary

In performing our audit we have not identified any significant deficiencies or material weaknesses in internal controls relating to the prevention and detection of fraud and error which would impact upon our ability to provide our opinion on the financial statements for the year ended 30 June 2024. However, we did note a number of observations, which are summarised below. Refer to Section Two for a full description of the current year findings.

Current Period Improvement Points

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Improvement points

Access to post journal entries

Rating:	Moderate
Ease of Fix:	Medium
Observation:	In addition to members of the Finance Team (as expected) there are a number of other users with journal posting access. This includes a number of IT support specialists with full access rights.
Risk:	This creates additional risks of both potential error (users accidentally posting journals) and fraud (users outside of finance team might potentially be able to post fraudulent entries).
Recommendations:	We recommend that the list of users is regularly reviewed. Access should be limited to a defined group of users that have a business need to post journals. All other users should have limited access (or no access).
Management Response:	We have reviewed the users who have access to post journals and aside from IT, the finance team and finance administrators no other users have journal posting access. Note 2.2 below there is a management control for journals >\$10m. In general, we would require the IT team to have full admin access in case of more technical issues beyond the Finance Teams ability. However, we will investigate our options to either limit access to specific functions within TechOne or require an additional approval step for journal posting for non-finance users to reduce potential error and fraud risk.

Review of journal entries

Rating:	Moderate
Ease of Fix:	Medium
Observation:	<p>QLDC has a formalised review process for journals above \$10m (which have to be approved by the CFO).</p> <p>There is no formal review for the journals below that amount.</p> <p>QLDC has mitigating controls in place, which include regular reconciliations, higher level review of management accounts and segregation of duties within the Council. We do note however, that while there are mitigating controls in place, they are not granular and precise enough to fully mitigate the identified risk.</p>
Risk:	There is a risk that a lack of review over individual journal entries creates additional risks around potential error and fraud.
Recommendations:	We recommend that the Council considers the implementation of review controls over journal entries before they are approved for posting.
Management Response:	We will consider introducing an additional review/approval function for all manual journals over a certain dollar value. Additionally we are currently moving the posting of journals to be a Financial Accounting function where the Management Accounting team request journals to be posted and are required to provide sufficient support for the journal to be posted

Cyclical Review of Company Policies

Rating:	Moderate
Ease of Fix:	Simple
Observation:	There are a number of policies that have not been updated in recent years (including the p-card policy and recruitment policy (2016)). We have also identified that there is no formal internal guidance surrounding the cyclical review of key policies.
Risk:	There is a risk that policies are not being revised in a timely manner and therefore are not updated to align with key legislative changes and changes within the economic and reporting environment.
Recommendations:	<p>We recommend all policies that are older than 2 years are revised, and though there may be no change, that the policy has an updated issue date to reflect the review as well as a planned review date included in the policy.</p> <p>We note that the OAG has also provided updated guidance around sensitive expenditure policies and therefore we recommend the council applies this within its policy considerations.</p>
Management Response:	A large number of obsolete policies were revoked by full Council at its April 2024 meeting, as part of ongoing policy audit work. Currently the register of QLDC policies is held by the policy team, and email reminders are sent to policy owners when their policies are due for review. A policy dashboard using TechOne is in train to replace this.

Debenture Trust Deed Reporting

Rating:	Moderate
Ease of Fix:	Simple
Observation:	<p>It has been noted that through the Debenture Trust Deed audit that while the Reporting Certificate generated as at 31 December and 30 June declares the necessary securities held by the Council, it also includes additional disclosures to those in Schedule 4 of the Trust Deed. It was noted that these additional declarations were added following a discussion between the parties. The OAG consider information changes other than those carried out in compliance with the trust deed to be informal and not in accordance with the Trust Deed.</p> <p>Along with this it was noted that the categorisation of the stock balances in the limited independent assurance report provided by the OAG does not agree to that in the Trust Deed or Reporting Certificate. We note that the facility and drawn down amounts are accurately recorded, however not categorised as the OAG states they should be. This was also raised in prior audits.</p>
Risk:	There is a risk that the Reporting Certificate is not in compliance with the Trust Deed and therefore this leads to inefficiencies in reporting to the Trustee Company, as well as not following OAG guidance.
Recommendations:	We recommend that the Council and Trustee Company have the Trust Deed updated to reflect the reporting required.

Rating:	Moderate
Ease of Fix:	Simple
Management Response:	Consistent with prior years, we will follow up the matter with the Trustee

Interest register review/update

Rating:	Moderate
Ease of Fix:	Simple
Observation:	Through our review of the interest register, we identified an instance where one of the Councillors interests did not have the directorship interest included in the correct section of register. We also note that the new format that the register is maintained in does not allow for easy identification of conflicts. This is due to the interests being held across multiple documents instead of one combined list. This means a conflict is not easily able to be identified.
Risk:	There is a risk that not all information will be included in the register or that it will not be classified / documented correctly.
Recommendations:	We recommend that there is a process of review implemented (at least on an annual basis) to verify if the information provided by Directors is complete and accurate and that a single directory of Councillor interests is held.
Management Response:	We will follow this up with the staff member in our The Governance team, who are that is responsible for maintaining the Councillor interest register will to consider reviewing the way in which we report our conflicts of interest and will look to implement an annual cross reference check on Director's interests.

Roading and 3 Waters – data quality improvements

Rating:	Low
Ease of Fix:	Medium
Observation:	WSP (valuer for both roading and 3 waters) highlighted a number of data quality improvement areas in their respective valuations. We note for both roading and 3 waters the data quality for QLDC was largely favourable to other Councils, however, there remains opportunity for continued improvement.
Risk:	This is relevant to understand how data quality could be impactful on the valuation process and its output (and therefore having impact on financial statements).
Recommendations:	Council should work on continuous improvement of the data issues raised by valuer.
Management Response:	We note the comments and Finance will work with the infrastructure department to ensure we are continually improving in this space. This requires P&I also to strive for continuous improvement in the management of asset data. . The P&I review has increased FTE in the Asset Management teams, and we have continuous improvement activities in place for data improvement for both transport and

Rating:	Low
Ease of Fix:	Medium
	three waters. Next calendar year should see significant improvements especially in three waters as the recruitment progresses.

Aged bonds

Rating:	Low
Ease of Fix:	Simple
Observation:	Through our testing we noted that at 30 June 2024 there are \$1.4m of bonds greater than 10 years old. While this is not an error, we would consider the likelihood of these being claimed remote.
Risk:	There is a risk that the bond liability is overstated as these outstanding amounts are very unlikely to be claimed.
Recommendations:	We recommend a review of the bond register to see if there are any bonds unlikely to be claimed in the future. We understand Council has already taken legal advice in respect of what can happen to unclaimed bonds.
Management Response:	We agree with this recommendation and are currently working with our legal team to review our aged bonds to ensure best practise for accounting for unclaimed bonds. We have started a process to advertise the ability to claim back old streetfront bonds, with an intention to clear the bonds after a related expiration date.

Depreciation – Useful Life Estimates

Rating:	Low
Ease of Fix:	Simple
Observation:	Consistent with prior year, there are a number of fully depreciated assets included within furniture/equipment, building improvements, and computer hardware asset categories.
Risk:	This suggests that the useful lives/depreciation policies may not be reflective of the pattern of usage of these assets over time.
Recommendations:	We recommend a review is completed of the operational assets register, and noting whether assets that have no value whether they should be booked on the register, and double checking depreciation rates.
Management Response:	Agree with the comments made - Finance needs to implement this review.

Supplier changes review

Rating:	Low
Ease of Fix:	Simple
Observation:	There is no set frequency implemented by QLDC for supplier changes review. The review of the report (Masterfile changes spreadsheet) that lists all new suppliers and any supplier master detail changes was not performed on a regular basis.
Risk:	There is a risk that lack of frequent control could lead to inappropriate changes made to supplier database without being picked up in time to prevent inappropriate expenditures.
Recommendations:	QLDC should implement the review control with defined frequency and follow up process.
Management Response:	The Financial Services Team Leader completes this review every month.

Bank reconciliations

Rating:	Low
Ease of Fix:	Simple
Observation:	Through our cash testing we noted that QLDC does not perform a bank reconciliation for all bank accounts back to the bank statements. As at year end there were a number of small unexplained variances were identified between the cash balance as per the bank confirmation and the cash general ledger balance. While this was not material, it is best practice to perform these reconciliations to ensure that any variances are investigated and understood as cash is an area with an enhanced fraud risk
Risk:	There is a risk that there are unexplained differences between the cash held and the general ledger.
Recommendations:	That a reconciliation should be performed on a regular basis for all cash accounts with any differences investigated.
Management Response:	We agree with the comments made and have updated our monthly processes to ensure this review is done.

Information Technology Improvement Points

New user provisioning-access rights are mirrored from an existing user.

Rating:	Moderate
Ease of Fix:	Simple
Observation:	The user access permissions for the new users within the Technology One application are copied from that of an existing user or a user previously in that position.
Risk:	Mirroring users' access to the application could potentially pose a risk that users may be provisioned access privileges beyond those necessary to perform their assigned duties, which may create inappropriate segregation of duties
Recommendations:	Management should consider including a section in the access request form which explicitly mentions the roles to be provisioned for each user or outlines the due diligence performed. This should be completed by the data owners or line managers who are responsible for authorising the nature and extent of access privileges on each application.
Management Response:	<p>The network authorisation form will be updated and we will remove the reference to copying from existing user accounts. A note will be included on the form to ask the manager to confirm the role (position) of the new user so that the appropriate profile access can be identified to add the user to.</p> <p>The network authorisation form is reviewed periodically to ensure it is in line with our onboarding process.</p>

Access Security- User Access de-provisioning

Rating:	Low
Ease of Fix:	Simple
Observation:	The access rights for one terminated user were revoked 13 days after their termination.
Risk:	When access for terminated users is revoked with a delay, there is a potential risk that these users could still access the system, leading to security breaches, data manipulation, or misuse of privileges by the terminated user or others within the organization who may exploit the active account.
Recommendations:	Management should ensure that access rights for terminated users are revoked immediately upon termination. Management could also consider implementing an automated or monitored process that disables user accounts across all systems as part of the offboarding procedure to reduce the risk of unauthorized access.
Management Response:	<p>The user left QLDC on the 7th June, their account was expired for the 10th at 5pm as per Manager request. Accounts that have an expiry are automatically deactivated.</p> <p>We do not remove accounts until after the next pay run as the account needs to exist in TechOne for payroll to process the last pay run then it is removed as this was done subsequently (the fortnight pay run was the week of the 17th June).</p>

Access Security- Authentication- Process Improvement only

Rating:	Low
Ease of Fix:	Simple
Observation:	The enforced Password Complexity settings for the Technology One application does not align with the settings outlined in the QDLC password policy document.
Risk:	The enforced password complexity settings for the Technology One application not aligning with the QDLC password policy creates a risk of weaker password protections. This misalignment could lead to passwords that are easier to compromise, increasing the likelihood of unauthorised access to the application and sensitive data.
Recommendations:	Management should update the password complexity settings for the Technology One application to ensure full alignment with the QDLC password policy. Regular reviews should be conducted to ensure all security settings across applications adhere to corporate policies, thereby reducing the risk of compromised accounts and enhancing overall security.
Management Response:	Most users of TechnologyOne gain access via Active Directory and are therefore conforming to the QDLC password policy. Those users who access TechnologyOne directly do so because they infrequently require access. This group includes job applicants, contractors who have access to request management only or casual staff who have access to their timesheets and pay-slips. The infrequent nature of the access, and the low risk associated with locked down profiles, means that passwords expiring every 90 days would be an unnecessary administrative burden for those users.

Appendix A: Risk Assessment and Definitions

Deloitte assesses the risk associated with each finding based on our current understanding of the impact of the finding on the organisation, and the likelihood of the finding occurring. The risk is rated as below.

Risk Rating	Description
High	<p>May have a significant adverse impact on the organisation achieving its objectives. Compromise or disruption of the confidentiality, integrity or availability of one of the Group's key business functions could occur. This finding should be addressed immediately via business decisions and associated development activities.</p> <p>We rate findings as High Risk weighing the fact that vulnerabilities are easy to find, of high prevalence, easy/moderately easy to exploit and would have a high business impact. The rest of the findings and rating used should be read in the same context.</p>
Moderate	<p>May expose the organisation to some risk, but is not considered significant. This finding should be addressed as soon as possible to improve Group's security.</p> <p>We rate findings as Moderate Risk weighing the fact that vulnerabilities are easy to find, easy/moderately easy to exploit and would have a moderate business impact.</p>
Low	<p>Limited risk to the organisation or risks identified but for which management is taking appropriate action to mitigate. Included for management information purposes.</p>

Deloitte's estimation of the effort required to fix the finding raised is based on our previous experiences with resolving similar findings at similar organisations. This is intended as a guide only.

Queenstown Lakes District Council should undertake its own assessment to determine the actual level of effort required.

Ease of Fix Rating	Description
Complex	<p>The solution is complex and may involve substantial time to develop, implement and test, substantial monetary cost to resolve, or substantial changes to system design or business processes. Estimated timeframe for fix to be implemented is within six months.</p>
Medium	<p>There is a moderately complex fix for this finding, which may involve some time to develop, implement and test, some cost to resolve, or some changes to system design or business processes. Estimated timeframe for fix to be implemented is within three months.</p>
Simple	<p>There is a simple fix for this finding, which may involve minor system changes that require limited effort to implement or test, minor costs to resolve, or minor changes to system design or business processes. Estimated timeframe for fix to be implemented is within one month.</p>

Attachments | Kā Tāpirihaka

A	Deloitte Management Letter for year ending 30 June 2024
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