

## Audit Scope

Assurance Services has completed an audit of the design and application of payment controls at the Avondale Business Association (ABA). The purpose of the review was to provide assurance to the ABA Committee, Auckland Council and the Whau Local Board and identify opportunities for control and efficiency improvements.

Our work involved determining processes and controls relating to payments and testing to assess the operation of these controls. This involved visits to the ABA office and meetings with the Treasurer and other members, review of documentation, e.g. committee minutes, and matching samples of payments back to supporting documentation.

Our work covered financial transactions occurring during the 2017/18 year only.

## Background

The ABA has been operating a Business Improvement District (BID) programme since 1997, funded by a targeted rate paid by the business ratepayers identified within the Avondale BID boundary area.

Council has been working with the ABA since November 2018 to resolve concerns raised by members of the public, elected members and BID ratepayers concerning financial transparency and governance. In April 2019 the Whau Local Board approved that Auckland Council withhold the targeted rates payment to the ABA until council is satisfied that the ABA has addressed these concerns. Auckland Council's Assurance Services team was asked to perform this review.

We performed an initial review of ABA's audited financial statements, which confirmed that these did not comply with generally accepted accounting principles (GAAP) and hadn't been appropriately audited. This led to a delay of several months while ABA prepared new accounts and had them audited by an appropriately qualified auditor. The updated accounts carry a qualified opinion as the auditors were unable to confirm opening balances.

## Conclusion

We are satisfied that, in general, current controls are appropriate, and we did not identify any inappropriate expenditure during the 2017/18 financial year.

Based on current financial controls, we are comfortable with BID funding being released. However, this should be on the basis of Assurance Services performing a follow-up review in mid-2020 to confirm that controls are continuing to operate effectively.

Because of prior year balances being disclaimed in the 2018 financial statements, and our review not covering earlier years, there is no assurance over pre-2018 transactions and balances. The committee may choose to review these earlier years at its discretion.

We identified opportunities to strengthen controls in some areas including payment approval and conflicts of interest. These are described below.

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## Findings

### 1. Payment Controls

The key payment controls in place during the 2017/18 year were:

- cheque payments recorded in a cheque register
- approval of payments each month by the ABA Committee
- cheques signed by two of the three authorised signatories
- bank reconciliations

We reviewed a sample of cheque payments and in two cases could not find evidence that these were approved by or communicated to the ABA Committee.

All cheques reviewed, including the two described above, had been signed by two authorised signatories as required and related to legitimate ABA expenses.

### Recommendation

The committee should:

- review a schedule of payments each month and approve all payments to be made
- clearly record all payments and whether they have been approved in committee minutes
- confirm that bank reconciliations have taken place

### 2. Payment Methods

In the 2017/18 year, cheques were used as the main method of payment. These included cash cheques paid to the Treasurer, to reimburse him for ABA expenditure he had made on his own credit card, e.g. when buying food at Countdown for a community event.

This provides limited transparency of spending as well as being inefficient.

### Recommendation

In 2019 ABA started using electronic online payments. We recommend that these are used in preference to cheques wherever possible, in order to provide a clearer audit trail and increased control.

When reimbursements are required, sufficient documentation and receipts should be retained to provide clear justification. Reimbursement payments should be approved by the committee.

### 3. Utilities Payments

All utilities payments paid from the ABA's bank account, for example telephone and power, were specifically related to the ABA and there was no evidence of cross-subsidisation of the Treasurer's own business, where the ABA office is located.

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## **4. Documentation and Computer System**

Documentation was mainly paper-based, and filing was disorganised. Although we were able to obtain the supporting documentation we required, such as invoices, this required a large amount of searching.

There was a significant risk of documentation being lost, and the lack of an organized filing system would have reduced efficiency and increased the time taken to perform accounting tasks.

### **Recommendation**

We recommend that ABA uses an accounting software package to record transactions in order to improve control and efficiency, and provide a stronger audit trail. This will also reduce reliance on hard copy documentation.

Once an appropriate system is implemented, system information should be regularly backed up to mitigate the risk of loss.

Where paper records are retained, for example hard-copy invoices, these should be filed in a logical manner that can easily be matched to payments.

## **5. Conflicts of Interest**

We were informed that conflicts of interest are regularly discussed at committee meetings and any conflicts approved, and members will step out of meetings as required when items are discussed where they have a conflict. However, we were unable to see evidence of this in meeting minutes.

### **Recommendation**

Declaration and approval of conflicts should be clearly recorded in committee minutes and a register of interests. If items are discussed where particular members have declared conflicts, they should exit the meeting for that item, and this should be recorded in minutes.

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