



**The Meeting of the
Audit and Risk Committee will be
held on Monday 7 August 2023
commencing at 1.00pm**

AGENDA

AUDIT AND RISK COMMITTEE

Her Worship the Mayor – F K N Tunui

Councillor C J Ion

Councillor A Rangihika

Councillor B J Julian

Philip Jones – Consultant - P J Associates (Chair)

KAWERAU DISTRICT COUNCIL

The Meeting of the Audit and Risk Committee will be held on
Monday 7 August 2023
commencing at 1.00pm

AGENDA

Apologies

Declarations of Conflict of Interest

Any member having a "conflict of interest" with an item on the Agenda should declare it, and when that item is being considered, abstain from any discussion or voting. The member may wish to remove themselves from the meeting while the item is being considered.

1 CONFIRMATION OF AUDIT AND RISK COMMITTEE MINUTES

1.1 Audit and Risk Committee – 12 June 2023

Pgs. 1 - 2

Recommendation

That the minutes of the Audit and Risk Committee Meeting held on 12 June 2023 be confirmed as a true and accurate record.

2 Health, Safety and Wellbeing Report for Period 1 May 2023 – 30 June 2023 (Group Manager, Regulatory and Planning (509500))

Pgs. 3 - 9

Attached is the report from the Group Manager, Regulatory and Planning covering Health, Safety and Wellbeing report for period 1 May 2023 - 30 June 2023.

Recommendation

That the report "Health, Safety and Wellbeing report for period 1 May 2023 – 30 June 2023" be received.

3 Treasury Report to 30 June 2023 (Group Manager, Finance and Corporate Services) (110551)

Pgs. 11 - 14

Attached is a Treasury report from the Group Manager, Finance and Corporate Services covering the period to 30 June 2023.

Recommendation

That the report "Treasury report to 30 June 2023" be received.

4 Audit Management Report for Year Ended 30 June 2022 (Group Manager, Finance and Corporate Services) (201000)

Attached is the Audit Management Report for year ended 30 June 2022.

Recommendation

That the report "Audit Management Report for Year Ended 30 June 2022" be received.

5 Audit New Zealand – Audit Plan and Audit Proposal Letter for the Annual Report to 30 June 2023 (Group Manager, Finance and Corporate Services) (201300)

Pgs. 39 - 68

Attached is the report Audit New Zealand – Audit Plan and Audit Proposal Letter for the Annual Report to 30 June 2023.

Recommendation

That the report "Audit New Zealand – Audit Plan and Audit Proposal Letter for the Annual Report to 30 June 2023" be received.

6 Review of Councils Fraud Policy and Corruption Policy (Group Manager, Finance and Corporate Services) (201300)

Pgs. 69 - 77

Attached is a report on the Review of Councils Fraud Policy and Corruption Policy.

Recommendation

That the report "Review of Councils Fraud Policy and Corruption Policy" be received.

7 Long-Term Plan 2024 – 2034 Timetable (Group Manager, Finance and Corporate Services) (110555)

Pgs. 79 - 82

Attached is a report on the Long-Term Plan 2024 – 2034 Timetable.

Recommendation

That the report "Long-Term Plan 2024 – 2034 Timetable" be received.

R B George

Chief Executive Officer

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**Kawerau District Council Minutes of an
Audit and Risk Committee held on 12 June 2023
commencing at 1.00pm**

Present: Philip Jones – P J Associates (Chair)
Her Worship the Mayor – F K N Tunui
Councillor A Rangihika
Councillor C J Ion
Councillor B J Julian

In Attendance: Chief Executive Officer (R George)
Group Manager, Finance and Corporate Services (L Butler)
Group Manager, Regulatory and Planning (M Glaspey)
Group Manager, Operations and Services (H van der Merwe)
Health and Safety Officer (P Snook)
Administration Officer (T Barnett)

Apologies

No apologies were received.

Declarations of Conflict of Interest

No conflicts of interest were received.

1 CONFIRMATION OF AUDIT AND RISK COMMITTEE MINUTES

1.1 Audit and Risk Committee – 3 April 2023

Resolved

Councillors Ion / Julian

That the minutes of the Audit and Risk Committee Meeting held on 3 April 2023 be confirmed as a true and accurate record.

2 Occupational Health and Safety Management System Status (Health and Safety Officer) (509500)

The Committee reviewed the Health and Safety Officers report.

Resolved

Chair Jones / Councillor Rangihika

That the report "Occupational Health and Safety Management System Status" is received.

3 Treasury Report to 30 April 2023 (Group Manager, Finance and Corporate Services) (110551)

The Committee received a Treasury report from the Group Manager, Finance and Corporate Services covering the period to 30 April 2023.

Resolved **Councillor Julian / Her Worship the Mayor**

That the report "Treasury report to 30 April 2023" be received.

4 Annual Plan Performance for the Nine Months Ended 31 March 2023 (Group Manager, Finance and Corporate Services) (110400)

The Committee received a report informing members of Councils Annual Plan Performance for the nine months ended 31 March 2023.

Resolved **Chair Jones / Councillor Ion**

That the report "Annual Plan Performance for the Nine Months Ended 31 March 2023" be received.

5 2022 / 23 Annual Report Timetable (Group Manager, Finance and Corporate Services) (110400)

The Committee received a report on the 2022 / 23 Annual Report Timetable.

Resolved **Councillors Julian / Rangihika**

1. *That the report "2022 / 23 Annual Report Timetable" be received.*

2. *That the Audit and Risk Committee accepts the proposed timetable.*

6 Risk Register – Monitoring Report (Group Manager, Finance and Corporate Services) (201000)

The Committee received a report on the Risk Register.

Resolved **Councillor Julian / Her Worship the Mayor**

1. *That the report "Risk Register – Monitoring Report" be received.*

2. *That the Audit and Risk Committee considered the identified risks.*

Meeting closed 1.57pm

P Jones
Chairperson

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Meeting: Audit and Risk Committee

Meeting Date: 7 August 2023

Subject: Health, Safety and Wellbeing Report for period - 1 May 2023
– 30 June 2023

File No: 509500

1 **Purpose**

This report provides a summary of the activities Kawerau District Council undertakes to meet the requirements of the Health and Safety at Work Act 2015 and our efforts to ensure everyone goes home healthy and safe.

2 **Executive Summary**

The core systems and controls in place to manage Council's health, safety and wellbeing risks include:

- Ensuring Elected Members and all Council Staff are aware of their specific and general duties under current Health and safety legislation, through inductions and training.
- Development of a health and safety culture that encourages the identification, reporting and mitigation of new and existing health, safety and wellbeing risks, with ongoing risk monitoring and reviews.
- Dedicated Health and Safety Officer engaged to monitor compliance with health and safety legislation, driving continuous improvement and continual learning.
- Maintaining an effective Health and Safety Committee by engaging with staff, which enable participation and provides leadership, guidance and support across the organisation to better inform health and safety decisions and policies for Council staff, contractors and visitors.
- Implementation of health, safety, and wellbeing software (BWARE) to enable reporting, investigation and ongoing monitoring of identified risks.

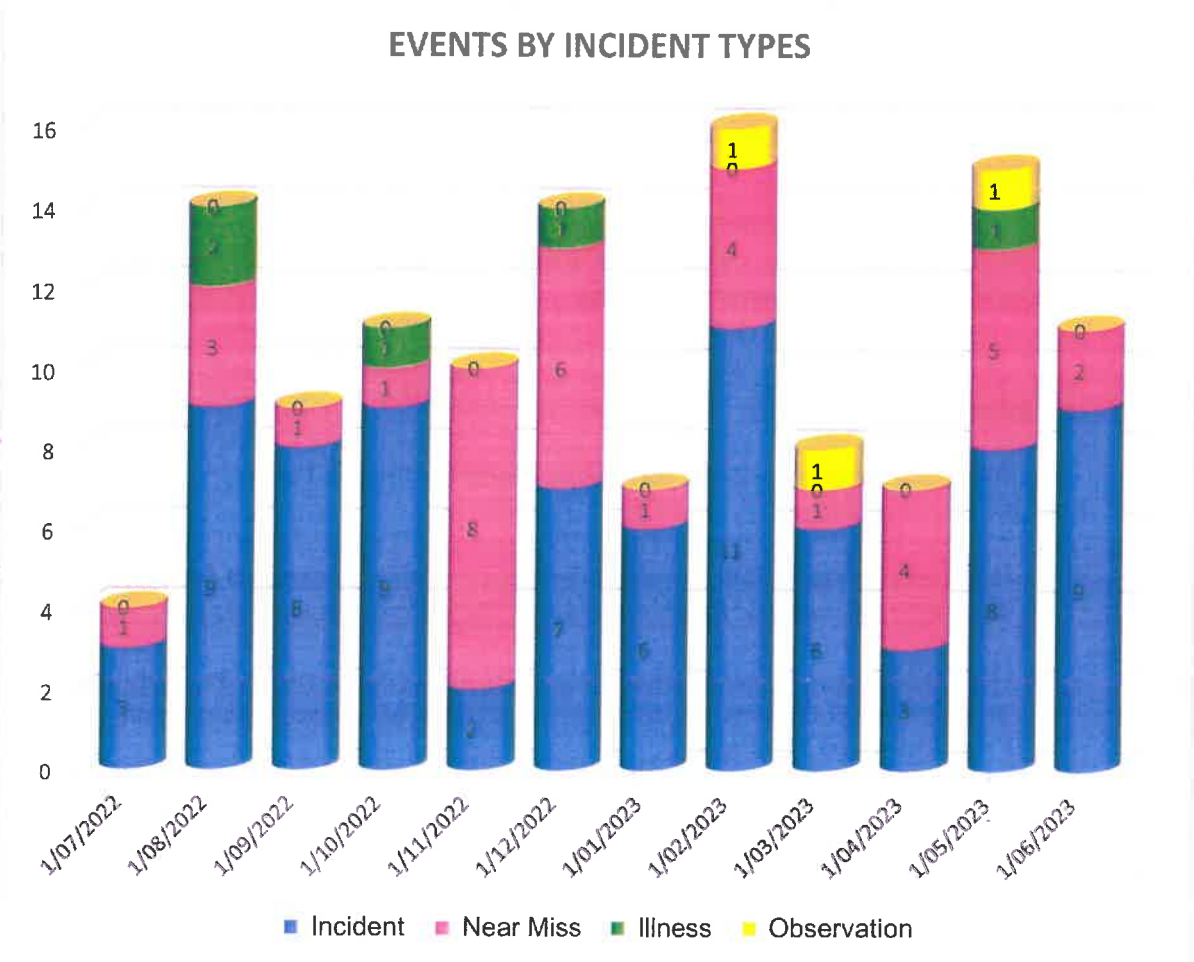
The key items which elected members should note from this report are:

- No notifiable events
- Engagement survey shows 72% of staff believe health and safety is appropriately reflected in Council's systems and processes.
- Contractor Site Safety Monitoring KPI has been achieved for 2022 – 2023.
- Staff continue to report cases of Covid-19, with the yearly trend continuing downwards.

3 Incident and Injury Reporting

Incidents for period - 1 May 2023 – 30 June 2023 (Brackets – Year to Date)

Incidents 18 (81)	Near Miss 7 (37)	Illness 1 (5)	Observations 1 (3)
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Note: Illness does not include Covid - 19 cases, these are sicknesses such as heat exhaustion, dehydration

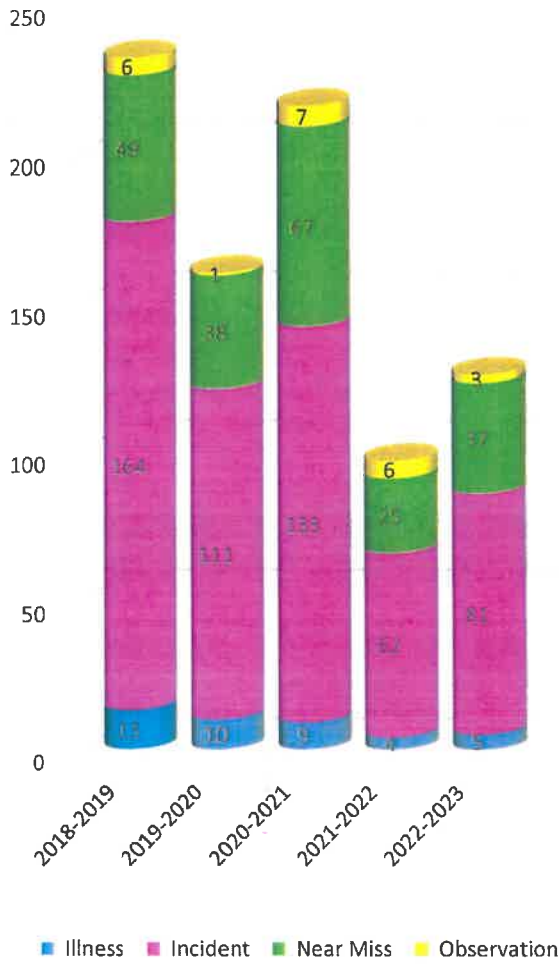
Incidents Risk Type and Treatment for Period 1 May 2023 – 30 June 2023

Events by Critical Risk	
Public/People/ Customers	3
Stress	0
Slips, Trips and Falls	4
Lone Working	0
Manual Handling	4
Other	14

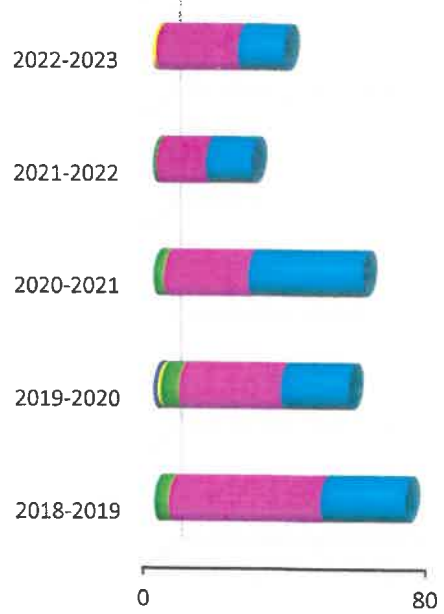
Outcome of Incidents	
No Treatment	19
First Aid	3
Medical Treatment	3
Lost Time	0
Hospital	0
Investigations Required	
Formal Investigation	0
Work Safe Investigation	0

Incidents and Treatment Comparisons

INCIDENT TRENDS

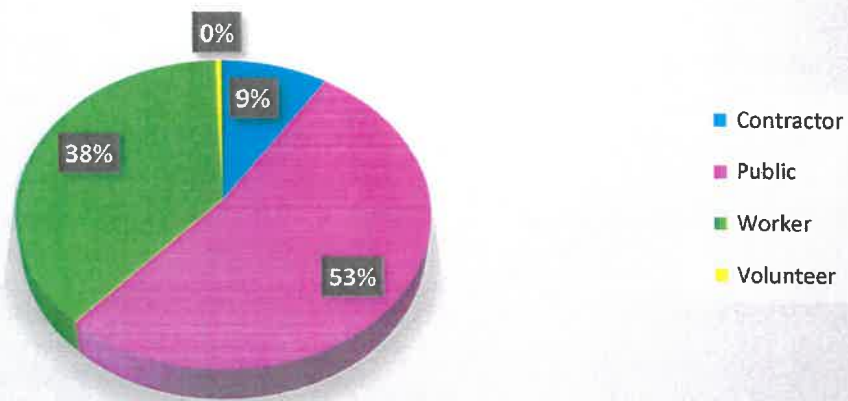


TREATMENT COMPARISON

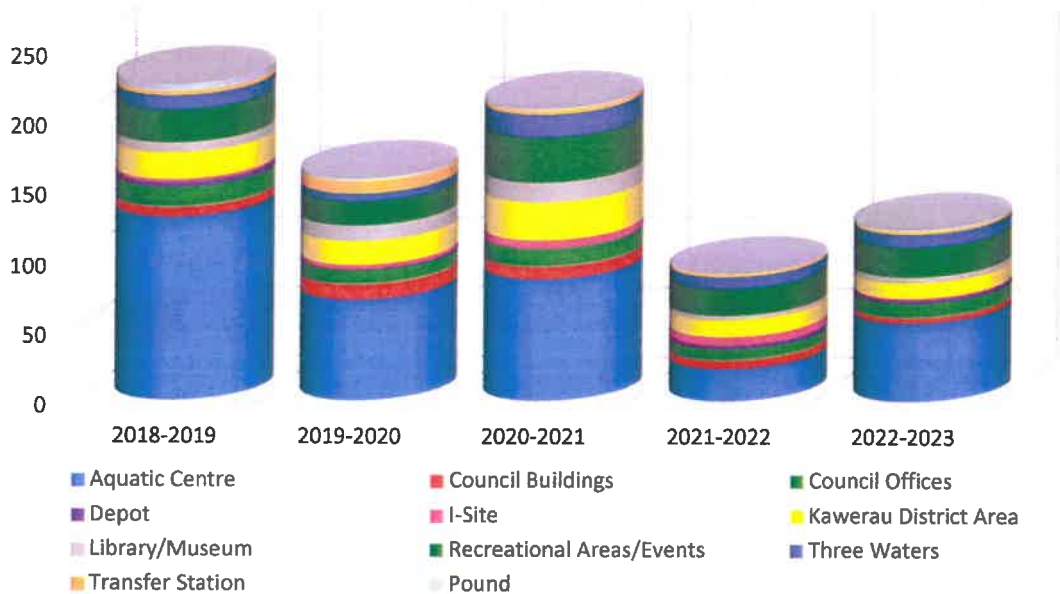


	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Hospital Admission	0	1	0	0	0
Lost Time	0	1	0	0	1
Medical Attention	4	5	3	1	0
First Aid	43	29	24	14	23
No Treatment	24	19	32	13	13

INCIDENT BY WORKER TYPE



INCIDENTS BY LOCATION



Potentially Critical Events/Critical Events 1 May 2023 – 30 June 2023

Event	Critical Risk	Potential Consequence	Actual Consequence	Controls and Status
2519 - Manual Strain Injury using Catchpole - Dog Ranger	Manual Handling	Medium	Medium	<ul style="list-style-type: none"> Animal Handling Training Manual Handling Training Dog Ranger was reminded aggressive dogs are unpredictable and difficult to assess. Trained in handling dogs, nothing he could have done would have prevented strain. Recovered
2524 - Slip and Knee Sprain - Dog Control Office	Slips, Trips and Falls on the same level	High	Medium	<ul style="list-style-type: none"> Good Housekeeping. Worker reminded to keep work area tidy at all times. Recovered
2525 - Verbal Abuse to Staff - Maurie Kjar Aquatic Centre	Violence, Aggression and/or Assault	High	Low	<ul style="list-style-type: none"> Customer Conflict Training Dealing with Abusive Customers Process Staff reminded of process, which had been followed. Customer banned from site for 3 months. Team Leader followed up on staff wellbeing.
2526 – Bruising from dog – Recycle Run	Animals Roaming	High	Low	<ul style="list-style-type: none"> Manual Handling Training Reinforced awareness around dog rushes/attacks. Staff reminded of process to check for animals before getting off recycling truck. Report suspect properties/dogs for dog ranger to follow up. Recovered

4 Health, Safety and Wellbeing Risk Related Activities

Health, Safety and Wellbeing Related Activities		
Risk	Key Activity	Planned Activity
General Health and Safety Risk Management Programme	<ul style="list-style-type: none"> BWARE went live on 1 July 2023. (Business and Workplace Activity Report Engine) Council's new health and safety reporting system. New Staff inducted - 4 New Health and Safety Rep elected for the 3 Waters Team, 1 vacant position for the Aquatic Centre 	<ul style="list-style-type: none"> BWARE – Training to be booked for all staff regarding logging incidents and using forms. BWARE – Work on development of reports and dashboards for easy access to key information. Arrange for a SafePlus audit (a performance improvement initiative) to be completed late 2023. Previously done in 2018, finding KDC to be performing in the three core elements of leadership, workforce engagement and risk management. This audit will help identify areas of weakness and provide ideas for ongoing improvement. Review top 5 critical risks, with the idea of extending to the top 10.
Contractor Management	<ul style="list-style-type: none"> Two contractor audits completed <ul style="list-style-type: none"> -<u>Drain layer</u> – (River Rd) Site not fully operational at the time of the visit. Documentation/Excavation and Traffic/Pedestrian Management reviewed. No issues. -<u>Pipe Lining Company</u> (Onslow St, Carpark) No opportunities for improvement identified. Face Fit Test and Training – 18 Attended Workplace Assessor – 1 Attended 	<ul style="list-style-type: none"> One contractor audit to be completed each month
Training		<ul style="list-style-type: none"> Chemical Safety, Foundation, Handling & Storage – 7 booked Safe Chainsaw Operations – 6 Booked First Aid Training – 2 Booked

<p>Policy Reviews</p>	<ul style="list-style-type: none"> • Health & Safety Policy – Approved by Leadership Team • Contractor Monitoring Template – Approved by Health and Safety Committee and Leadership Team 	<ul style="list-style-type: none"> • Workplace Stress & Fatigue Policy – ongoing - rewrite required to modernise and incorporate staff wellbeing • Drug and Alcohol Policy – Review complete, waiting to be sent to the Leadership Team for Approval • Trespass Policy – Health and Safety Committee to considering incorporating the temporary exclusions under the “Dealing with Abusive Customers Process” into the Policy. • Emergency Response Team – Further amendments requested from Leadership Team and are being implemented • Implement a risk review programme to ensure all risks are reviewed regularly. 			
<p>Risk Reviews</p>					
<p>Risk</p> <p>Animals/Roaming Animals – dog attacks</p>	<p>Potential Score</p> <p>High</p>	<p>Activity</p> <ul style="list-style-type: none"> • Review Recycling Truck Process - Staff to watch for dogs and call dog ranger where presence of roaming dog. (Process existing) • Staff to report any suspect properties with dogs to Dog Ranger to complete property inspections. • Health and Safety Committee discussion identified need for training of outdoors staff. 	<p>Planned Activity</p> <ul style="list-style-type: none"> • Organise Dangerous Dog Training for outside staff 	<p>Desired Risk level outcome (as per risk matrix)</p> <p>Moderate</p>	

5 Health and Wellbeing

Health and Wellbeing

Emergency Readiness

Automatic External Defibrillators (AED's) available at Aquatic Centre and District Office
Emergency Response Team being developed and trained

General Health

Skin Checks available for Staff
Vaccination programme includes vaccinations for influenza and other role specific vaccines such as Hep A, B & tetanus

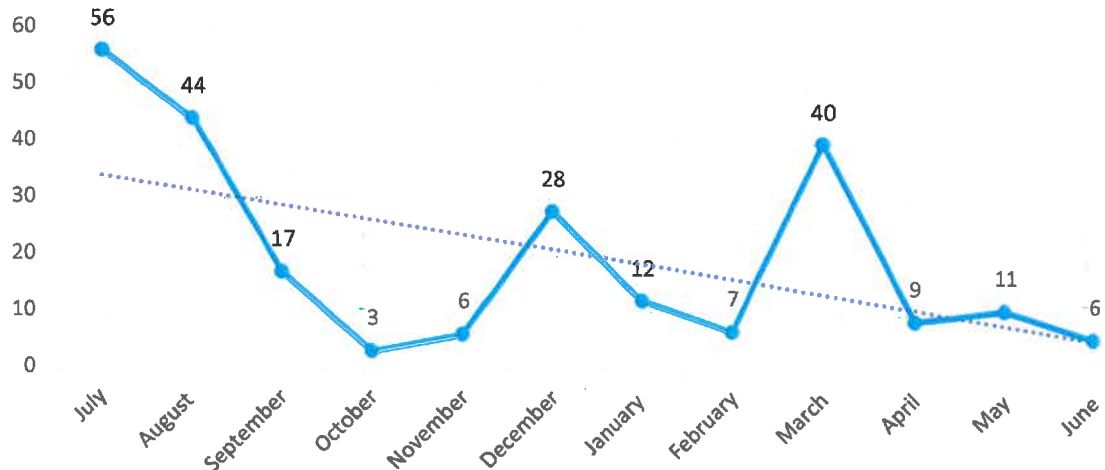
Wellbeing initiatives

My Everyday Wellbeing web platform was launched on 15 May 2023.
Since launched it has been accessed by 56 devices, 1000 page views and 194 sessions

Health Monitoring

Health monitoring commenced in June 2023, including audiometry and spirometry
Ongoing random drug testing

WORK DAYS AFFECTED BY COVID



Staff continue to report cases of Covid-19, with the yearly trend continuing downwards.

Engagement Survey

In June 2023, Council undertook a staff survey with 100% Participation. Council scored 72% when asked whether Health, Safety and Wellbeing of people was appropriately reflected in its system, processes, and work environment. This is 1% above the benchmark.

6 RECOMMENDATION

That the report "Health, Safety and Wellbeing Report for period - 1 May 2023 – 30 June 2023" be received.


Michaela Glaspey

Group Manager Regulatory and Planning

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Meeting: Audit and Risk Committee

Meeting Date: 7 August 2023

Subject: Treasury Report to 30 June 2023

File No: 110551

1 Purpose

The purpose of this report is to inform members of the funds held by Council as at 30 June 2023 and provide explanations for any significant variances from the previous year.

2 Background

This report also went to the Regulatory and Services Committee on 12 July 2023, and shows the funds currently held and the banks where those funds are invested.

All investments were made in accordance with Council's Investment Policy.

Council's Investment Policy allows up to 50% of total funds to be invested with any one bank but up to a limit of \$1.5 million.

The exception is Council's principal bank where funds can exceed 50% and/or \$1.5 million.

Council now has less surplus funds making it more difficult to spread investments but it is still required to act prudently.

Council raised a loan of \$2.0 million in December, which has been used to fund water renewal projects. The interest rate for this loan is 5.75% (fixed) and the maturity date is April 2025. Staff recommended a relatively short-term loan due to the increasing interest rates and the uncertainty around the 3 waters and other reforms that are currently being undertaken.

3 Funds Held

The following table shows Council's reserve and general funds balances as at 30 June 2023:

	June 2023	June 2022
Special Funds		
Depreciation Funds	\$3,179,295	\$7,097,918
Loan	\$2,000,000	\$0
Total Special Funds	\$5,179,295	\$7,097,918
General Funds	\$223,462	\$397,850
Total – comprising cash & internal loans	\$5,402,757	\$7,495,768

The figures show that overall Council has \$2.0 million less funds at the end of June than this time last year, which is as a result of:

- Less revenue (than budgeted) from Central Cove section sales, due to asbestos contamination and slowing of the market.
- Increased costs for refuse transport and disposal.
- The construction costs for the completion of the remaining 11 retirement units is \$3.4 million which is offset by the six settled Occupation Right Agreements of \$2.2 million. There are still five units at Porritt Glade to have Occupation Right Agreements signed and settled, which once occupied will assist with increasing cash funds.

The following funds were held at 30 June 2023:

Invested in	\$	Mean Interest	% External
ANZ – on call	776	0.09%	0.02%
BNZ – current & on-call	3,260,034	0.15%	86.29%
Rabobank (on-call)	517,150	2.00%	13.69%
Total Funds (Cash)	3,777,960		100.0%
Internal Loans	1,624,797		
Total Investments	5,042,757		

4 RECOMMENDATION

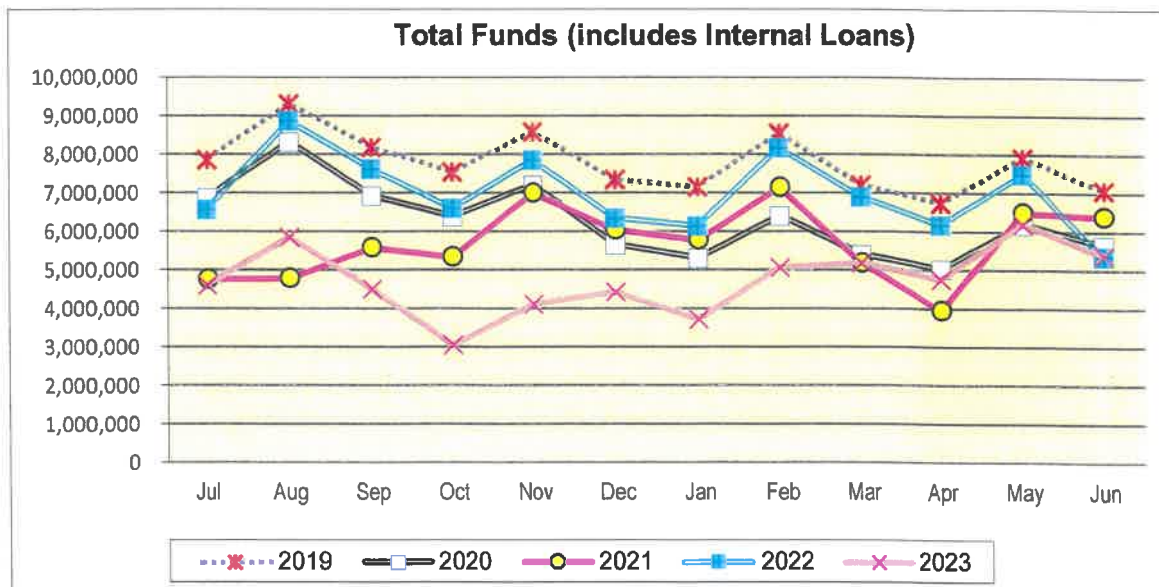
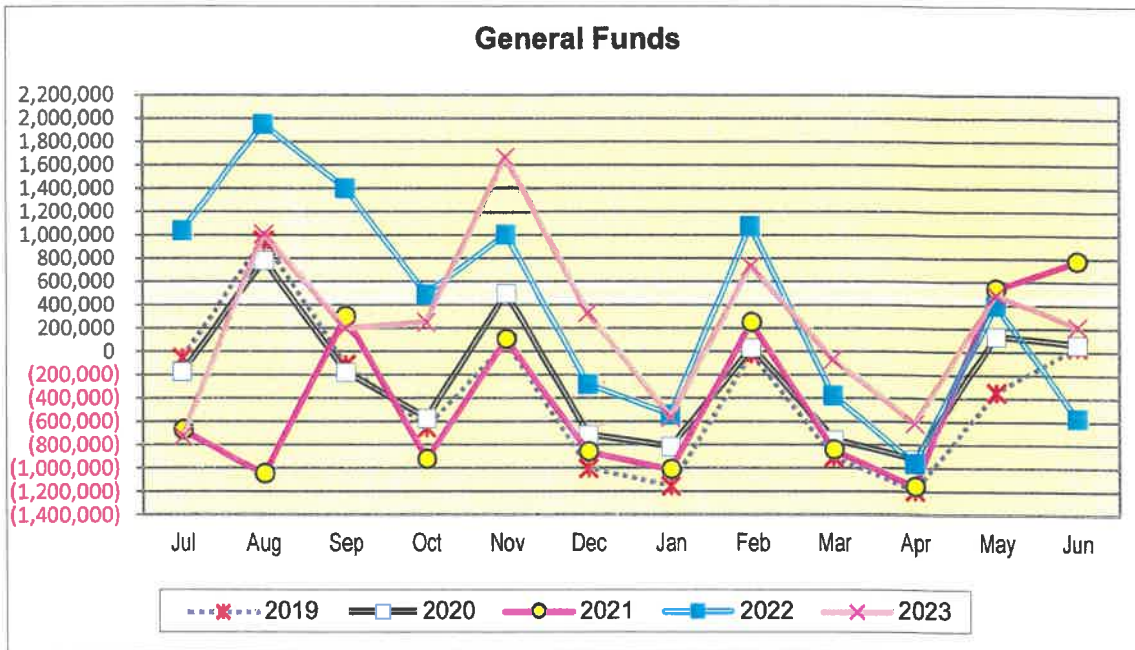
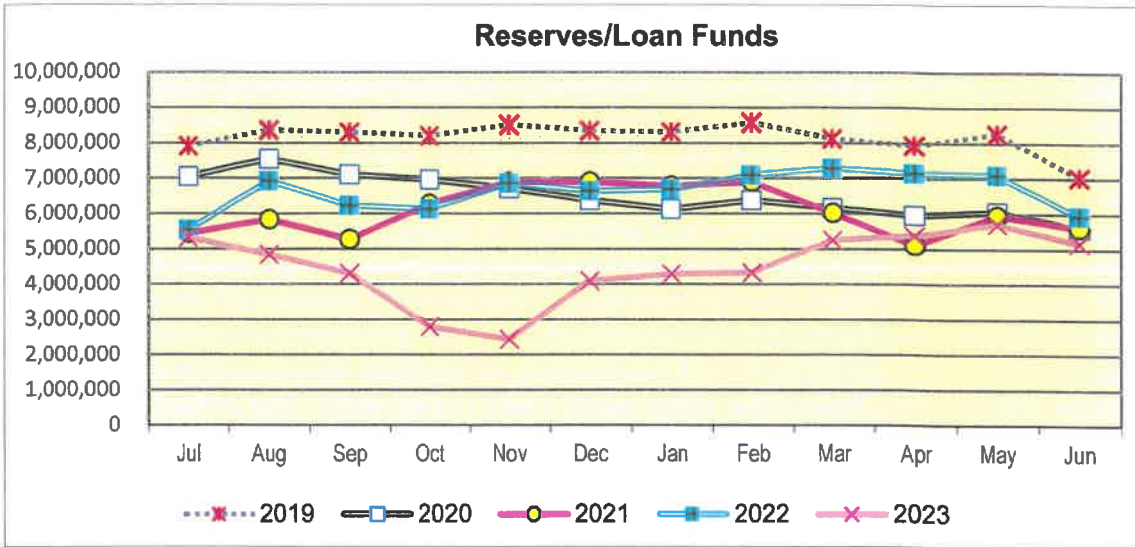
That the report “Treasury Report to 30 June 2023” be received.

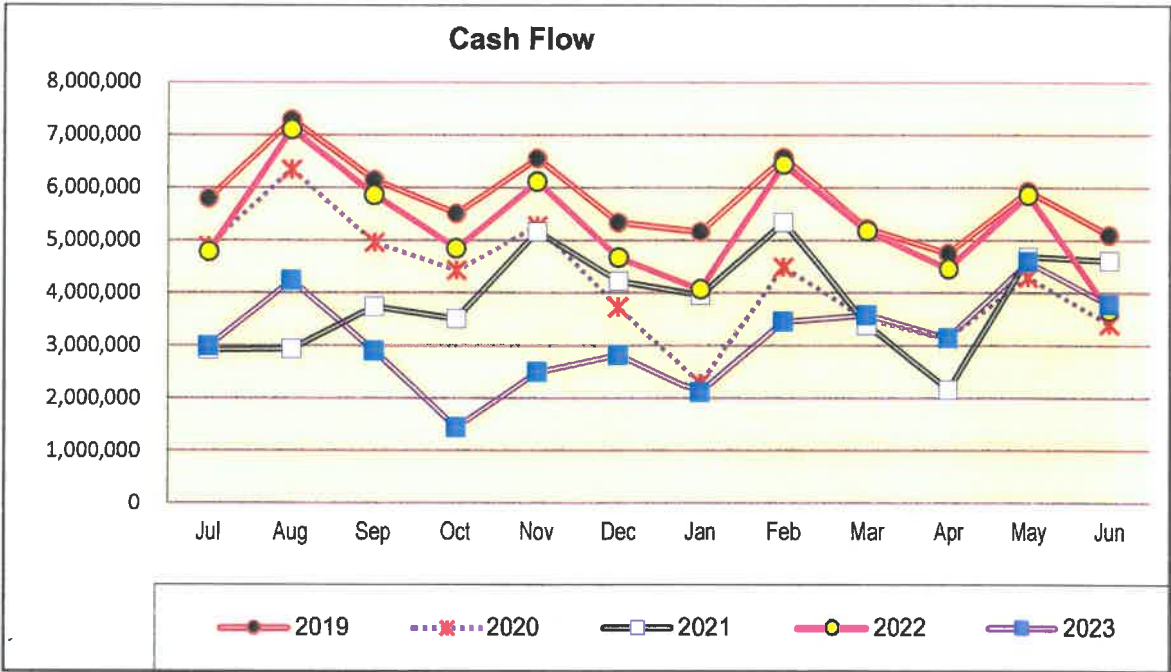
Lee-Anne Butler, CA, BMS
Group Manager, Finance & Corporate Services

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Appendix

June 2023





Meeting: Audit and Risk Committee

Meeting Date: 7 August 2023

Subject: **Audit Management Report for year ended 30 June 2022**

File No: 201000

1 Purpose

The purpose of this report is to update the committee on the issues raised in the Audit New Zealand Management Report for the year ended 30 June 2022 and management's responses to the issues identified.

2 Background

The Local Government Act 2002 requires that Council produces each year an annual report and that the annual report is audited.

As part of the audit process, an audit management report is prepared by Council's auditors, which identifies issues that Council needs to address to improve its internal controls and ensure it is meeting the legal obligations.

Staff will be reporting to the committee on the progress towards addressing the issues identified.

3 Issues Raised in the Audit Management Report to 30 June 2022

Attached to this report is the Audit Management report for the year ended 30 June 2022, as well as management's responses to the issues raised.

Two recommendations in the management report relate to the Sensitive Expenditure Policy. In August 2022, Council reviewed and updated the Sensitive Expenditure Policy, which was distributed to staff.

With regard to the recommendation to have a policy that includes "Bribery & Corruption", following recent discussions with Audit New Zealand, Council will look to include this in the Fraud Policy, which is the more appropriate area where this should sit, rather than in the Sensitive Expenditure Policy. While the Fraud Policy was recently reviewed by Council, further updates have been made. The updated Fraud Policy report is included separately for the Audit and Risk Committee's review at this meeting of 7 August 2023.

Council's Audit Director, René van Zyl, will attend the meeting to discuss and clarify any of the issues raised in the management report.

4 **RECOMMENDATION**

That the report "Audit Management Report for year ended 30 June 2022" be received.



Lee-Anne Butler, CA, BMS

Group Manager, Finance & Corporate Services

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AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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

Kawerau District Council

For the year ended 30 June 2022

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Key messages

We have completed the audit of Kawerau District Council (the District Council) for the year ended 30 June 2022. This report sets out our findings from the audit and draws attention to areas where the District Council is doing well and where we have made recommendations for improvement.

Audit opinion

We have issued a non-standard audit report on 26 April 2023. Without modifying our opinion, we included an emphasis of matter paragraph drawing attention to the disclosures in the financial statements about the impact of the Government's water services reform programme on the District Council.

This means that we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

We also included a paragraph in our audit report to draw attention to the fact that the audit was completed late due to an auditor shortage in New Zealand and the consequential effects of Covid-19.

Matters identified during the audit

Asset valuations

An area of audit focus was the valuations of the land, buildings and infrastructure assets. We reviewed the valuations to confirm that they were soundly based and had been correctly accounted for. We are satisfied that the valuations were correctly recorded in the District Council's financial statements.

Porritt Glade Lifestyle Village

As the Auditor-General is the auditor of the District Council we are required to do the audit of the Porritt Glade Lifestyle Village as part of the annual audit of the District Council. The Village's accounts are part of the District Council's financial records, and trial balance, as it is not a separate entity. A separate audit has been completed for the stand-alone annual report of the Village. We have obtained a technical opinion on the accounting treatments pertaining to the Village within the District Council's annual report and we are satisfied that the District Council's accounting treatments are correct, including the revenue recognition, the units stated as PPE and the residents' liability.

Prior year recommendations

We also followed up on the status of issues outstanding from previous audits. These matters are discussed further in Appendix 1.

Thank you

We would like to thank the Council, management and staff for their continued assistance during the audit process. We appreciate the co-operation we received during the audit and we are looking forward to capitalise on the knowledge gained and lessons learnt for the next year's audit.



René van Zyl
Appointed Auditor
23 June 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 recommended improvements.

Priority	Explanation
Urgent	Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the District 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 District 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
All journals are independently reviewed and is evidence of this review is retained.	3.2.1	Necessary
The District Council ensures all assets within a class are subject to periodic revaluation in accordance with the requirements of PBE IPSAS 17 <i>Property, plant and equipment</i> .	4.1.1	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	7	-	7
Implemented or closed	-	1	-	1
Total	0	8	0	8

2 Our audit report

2.1 We issued a non-standard audit report



We issued a non-standard audit report on 26 April 2023.

This means we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

Without modifying the audit opinion, we have included an emphasis of matter paragraph in our audit report to draw attention to the disclosure in the financial statements about the impact of the Government's waters services reform programme.

We also included a paragraph in our audit report to draw attention to the fact that the audit was completed late due to an auditor delay.

2.1.1 Impact of the waters service reform programme

The Government is currently reforming the way water services will be delivered and legislation passed in December 2022 established four publicly owned water services entities to carry out responsibilities for the delivery of three waters services and related assets and liabilities currently controlled by local authorities. A water services Bill to enable the transfer of these assets and liabilities to the water services entities, is currently before Parliament. Until the Bill is passed, the financial impact of the transfer on the District Council, remains uncertain.

On 13 April 2023, the Government announced further proposed amendments to the number of water services entities and staggering their establishment dates starting from early 2025, with all the water services entities to be established by 1 July 2026. The timing of the transfer of assets and liabilities is therefore uncertain until amendments to existing legislation are passed.

For the financial statements of 30 June 2022, the District Council continues to recognise its three waters assets. There has been no adjustment in the 2021/22 financial statements to reflect the expected future transfer of assets to the new water entity.

The District Council included detailed disclosure in the annual report about the reform and the uncertainty this creates in relation to the future operation of the three waters services. Given the significant impact the reform is likely to have on the District Council, we have included an emphasis of matter paragraph in our audit report to draw a reader's attention to this disclosure.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatement that has not been corrected are listed below along with management's reasons for not adjusting this misstatement. We are satisfied that this misstatement is individually and collectively immaterial.

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Property, plant and equipment	1	\$690,132	0	0	0
Asset revaluation reserve		0	0	(\$690,132)	0
Total		\$690,132	0	(\$690,132)	0

Explanation of uncorrected misstatements

- 1 Rooding for parks and reserves are classified as part of the Council's rooding class of assets. When rooding was revalued at 30 June 2022, the rooding for parks and reserves items were not revalued with the rest of the class. This is in contravention of PBE IPSAS 17 which requires all assets in a class to be revalued at the same time. The misstatement of \$690,132 represents the difference between the carrying value of those assets and the fair value as per the valuer's report.

Management comment

These assets values will be updated following the next revaluation 30 June 2025.

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. A list of these misstatements has been supplied separately to management.

2.4 Quality and timeliness of information provided for audit



Management is required to provide information for audit relating to the annual report of the District Council. Audit New Zealand implemented AuditDashboard in 2021 which is an online tool that allows for easier collaboration and file sharing between our teams and for easy tracking of audit document requests. This enables for a smoother file and information transfer between management and the audit team and also used as a way of monitoring progress during the audit.

The audit process did not go as smoothly as anticipated. The impact of the auditor shortage created additional challenges to both management and us in completing the 2021/22 audit.

For the up-and-coming audit we will work closely with management to set out expectations and plan ahead. We would also like to encourage management to make use of the AuditDashboard tool for the forthcoming audit to enable the audit team to collaborate and manage the flow of information in a more efficient way.

3 Assessment of internal control



The Council, 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.

3.1 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 Council, 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 Council and management to establish and maintain effective management procedures and internal controls.

Overall, we concluded that the control environment is effective.

3.2 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 Council 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 found that the controls have been designed effectively and have been operating effectively throughout the period, which enabled us to plan and undertake a controls reliance audit for payroll. Controls were not relied on for other transactions and a substantive approach has been followed.

We also identified an area where we believe improvement can be made to internal controls. This is detailed below.

3.2.1 Review process for Journals

During our review of journals, we noted that there is no evidence to support that journals are being signed as prepared or independently reviewed once they have been posted. This creates a risk that journals could be created to manipulate the financial statements or create fraudulent behaviour.

Recommendation

We recommend that all journals are independently reviewed and evidence of this review is retained either by a signature or implementation of an automated control that restricts journals being self-approved.

Management comment

All journals will be independently reviewed (and authorised) from now as Council has now the capacity to undertake this control function.

4 Matters raised in the Audit Plan



In our Audit Plan of 9 August 2022, we identified the following matters as the main audit risks and issues:

4.1 Revaluation of land, buildings and infrastructure assets (measured at fair value)

PBE IPSAS 17, *Property, Plant and Equipment* requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.

The District Council engaged independent valuers to value their infrastructure, land and building assets. The revaluations were performed as at 30 June 2022, for recognition in the 2021/22 financial year.

To gain assurance over the valuation of property, plant, and equipment we:

- assessed the external valuer's expertise and objectivity, and obtained representations from the valuers that the valuations were conducted in accordance with accepted professional valuation standards;
- reviewed the valuation and peer review reports and made enquiries of the valuers to obtain an understanding of the valuation methodologies used;
- assessed whether the valuation movements were reasonable and consistent with our expectations; and
- assessed the reliability of source data and the reasonableness of assumptions used. This included reviewing the basis of unit rates against recent contract information to ensure these were soundly based on current costs.

Our review found that the valuation adopted by the District Council was supportable and valuation movements were consistent with our expectations. However, we noted the following areas for improvement or consideration.

4.1.1 Completeness of valuations

The District Council revalued its roadings assets as at 30 June 2022. From our review, we noted that parks and reserves and some roading assets that had been excluded from the valuation. The total carrying value of these assets was \$690,132.

PBE IPSAS 17 *Property, plant and equipment* requires that all assets within a class are subject to a revaluation at the same time. We are satisfied that the omission of these assets from the valuation did not materially impact on the financial statements.

Recommendation

The District Council ensures all assets within a class are subject to periodic revaluation in accordance with the requirements of PBE IPSAS 17.

Management Comments

Staff will ensure that these assets are revalued and updated with new values for 30 June 2025.

4.2 The risk of management override of internal controls

Management is 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.

Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in an inherent risk of a material misstatement due to fraud, which audit standards require us to consider in every audit.

To address the risk of management override, we carried out substantive audit procedures. These included reviewing journal entries, accounting estimates and significant transactions that were outside the normal course of business.

We did not identify any matters of concern to bring to your attention.

4.3 Impairment of property, plant and equipment and intangible assets

At each reporting date management must assess whether there is any indication that assets may be impaired. If management identifies any indication of impairment, then they must estimate the recoverable service amount of the asset.

We reviewed management's assessment of impairment indicators to determine if there is any indication that assets were impaired. Management indicated that there were no indicators of impairment for the year and we are satisfied with the assessment.

4.4 Porritt Glade Lifestyle Village (the Village)

On 10 February 2020, the District Council registered the Porritt Glade Lifestyle Village (the Village) as a Retirement Village. As the District Council are developing and operating retirement homes, they are required under the Retirement Villages Act 2003 to register as an Operator, manage the retirement village, submit an annual return to the Registrar, and have their financial statements audited.

As the Auditor-General is the auditor of the District Council we are required to do the audit of the Village as part of the annual audit of the District Council. We considered the accounting treatment of the Retirement Village Resident's Liability as this was a material liability disclosed in the District Council's statement of financial position. We are satisfied that the accounting treatment and disclosures in the District Council's annual report are materially correct.

We also noted that the retirement units have been disclosed as property, plant and equipment in the annual report that were revalued as at 30 June 2022. We are satisfied these assets should be classified as property, plant and equipment that the values are fairly stated at year-end.

We also obtained a technical opinion on the financial statements of the Village. Assets, liabilities, revenue, and expenses related directly to the Village operations are taken from the District Council balances and transaction totals to compile a statement of comprehensive income and statement of financial position for the Village. A complete audit is performed on the stand-alone financial statements of the Village and is currently underway.

4.5 Software as an Accounting Service (SaaS)

The IFRS Interpretations Committee has published decisions clarifying how arrangements in respect of a specific part of cloud technology, Software-as-a-Service (SaaS), should be accounted for. This deals with specific circumstances in relation to configuration and customisation costs incurred in implementing SaaS and whether these costs should be capitalised or expensed.

We reviewed the District Council's assessment on whether their accounting policy is consistent with the IFRS Interpretations Committee published decisions clarifying how arrangements in respect of a specific part of cloud technology (SaaS) should be accounted for.

As a result of this assessment, there have been no changes required in the District Council's accounting treatment to align existing practice with the agenda decision.

4.6 Drinking water performance measure

The District Council is responsible for reporting performance against the safe drinking water standards. In particular this requires Councils to report the extent to which the local authority's drinking water supply complies with:

- a) part 4 of the drinking-water standards (bacteria compliance criteria); and
- b) part 5 of the drinking-water standards (protozoal compliance criteria).

Up until November 2021 performance related data was captured in the Drinking Water Online (DWO) database and compliance was assessed by Drinking Water Assessors (DWA). As a result of changes to the regulatory framework for drinking water quality, the DWO is no longer accessible and the DWA role no longer exists.

Given these changes, the District Council engaged 3 Waters Consulting to provide assurance that the District Council has complied with the drinking water standards. We were satisfied that 3 Waters Consulting were suitably qualified and experienced.

5 Public sector audit



The District Council is accountable to their 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 the District Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the District Council 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;
- the District Council carrying out its activities effectively and efficiently;
- waste being incurred as a result of any act or failure to act by District Council;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the District Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by the District Council or by one or more of its members, office holders, or employees.

No concerns were identified from our review of the District Council's transactions that need to be brought to your attention. Refer to Appendix 1 for the status of matters we raised in our previous audits.

6 Looking ahead

6.1 New auditing standard

ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, is effective for the audit of your financial statements for the first time in the financial year 30 June 2023. The standard sets out how auditors identify and assess the risks of material misstatement in financial statements. The standard requires the auditor to understand the entity, its environment, and its internal controls and use that knowledge to identify and assess risks. There are changes to how this is done compared to the previous standard.

These include a greater emphasis on the risks arising from the use of IT and the associated general IT controls and application processing controls. There will be additional work required on your audit compared to previous years. In your case, the impact will be in the following areas:

- A greater emphasis on identifying and understanding the IT applications and the other aspects of your IT environment that are subject to risks arising from the use of IT.
- Evaluating the design and implementation of the general IT controls that address the risks arising from the use of IT.
- Considering the new inherent risk factors and updating our risk assessment documentation where relevant to address these risk factors.
- Revisions to the matters we consider in evaluating your system of internal control.
- Strengthened documentation requirements relating to the exercise of professional scepticism. There is a greater emphasis on demonstrating a questioning mind and a critical assessment of audit evidence gathered when performing our risk assessment procedures.

6.2 New accounting standards

Commencing in 2023 there are new accounting standards that will be applicable to the District Council. These include PBE FRS 48: *Service Performance Reporting* and PBE IPSAS 41: *Financial Instruments*.

The District Council will need to assess the impact of these standards on the performance reporting and financial statements and ensure that the standards are appropriately applied.

6.2.1 PBE FRS 48: *Service performance reporting*

PBE FRS 48 *Service performance reporting* replaces the service performance reporting requirements of PBE IPSAS 1 *Presentation of Financial Statements* and is effective for the year ending 30 June 2023.

This Standard establishes new requirements for the selection and presentation of service performance information. The main change between PBE IFRS 48 and PBE IPSAS 1 is additional information disclosed on the judgements that have the most significant effect on the selection, measurement, aggregation, and presentation of service performance information.

6.2.2 PBE IPSAS 41: *Financial Instruments*

In March 2019, the External Reporting Board (XRB) issued PBE IPSAS 41 *Financial Instruments*, which supersedes both PBE IFRS 9 *Financial Instruments* and PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. This standard is effective for the year ending 30 June 2023.

The main changes between PBE IPSAS 29 and PBE IPSAS 41 are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost;
- a new impairment model for financial assets based on expected credit losses, which may result in earlier recognition of impairment losses; and
- revised hedge accounting requirements to better reflect the management of risks.

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Procurement practices		
The next revision of the procurement policy includes a comparison with the Government Procurement Rules, to ensure all good practice elements are reflected in the policy.	2020/21	The Procurement Policy has not been updated to reflect the good practice guidelines. Management comment <i>Procurement policy will be reviewed and updated during 2023.</i>
Sensitive expenditure policy		
The District Council undertakes a review of its sensitive expenditure policy with a view to aligning the policy with the <u>"Controlling sensitive expenditure: Guidelines for public entities"</u> issued by the OAG.	2020/21	The District Council is yet to incorporate the recommendations made to enhance its current sensitive expenditure policy. Management comment <i>Sensitive Expenditure policy will be reviewed and updated during 2023.</i>
Sensitive expenditure testing		
The District Council remind staff of the importance of ensuring expenditure incurred complies with the sensitive expenditure policy and accepted good practice in the public sector.	2019/20	Our testing identified an instance where the policy had not been complied with. Management comment <i>Management will circulate sensitive expenditure policy to all staff and also ensure compliance with the policy.</i>
Bribery and corruption		
A separate policy or the code of conduct or other ethical guidelines are developed that include bribery and corruption. An effective policy is likely to include: <ul style="list-style-type: none"> • zero tolerance; • definitions; • consequences for breach of policy; 	2018/19	A policy has not been developed to include bribery and corruption. Management comment <i>The Sensitive Expenditure Policy will be updated to include "Bribery and Corruption" during 2023.</i>

Recommendation	First raised	Status
Necessary		
<ul style="list-style-type: none"> procedures to prevent, detect and respond (for example reporting mechanisms, protections for whistle-blowers, investigations process); and roles and responsibilities. 		
Terminated employees		
Ensure all terminated employees are removed from the payroll system.	2018/19	<p>We identified two former employees who still have delegated authority access in the District Council's system.</p> <p>Management comment</p> <p><i>Generally all terminated employees are removed from the payroll system, unless they are engaged on a casual or fixed term basis.</i></p>
Interests declared in interest register		
All interests are declared and recorded in the interests register and any mitigations to declared interests are included in the minutes of meetings.	2018/19	<p>We performed a search of the Companies and Charities registers and identified a number of interests that had not been declared.</p> <p>Management comment</p> <p><i>Elected members and senior staff are reminded annually to declare any interest they hold.</i></p>
Risk management		
Consider if the current process used to comply with health and safety legislation is still in line with the District Council's overall risk strategy.	2018/19	<p>We noted that injury related incentives remain available and the process had not changed.</p> <p>Management comment</p> <p><i>This incentive has now been removed.</i></p>

Implemented or closed recommendations

Recommendation	First raised	Status
Necessary		
Valuation of assets		
<p>Management should consider factors beyond national cost indices when completing fair value assessments. For example, information from recent construction contracts and construction estimates should be used to understand whether there could be a significant change in the base unit rates used in the previous valuation.</p> <p>In a high inflation environment, it is also important these fair value assessments are carried out early and regularly, to ensure sufficient time for full revaluations to be carried out if material valuation movements are identified.</p> <p>We also recommend that the District Council uses an external consultant to perform the fair value assessments to ensure the assessment is based on current information and is robust.</p>	2020/21	All assets were revalued by external valuers in 2021/22.

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 all instances of misstatement, fraud, irregularity or inefficiency that are 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 the District 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: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audit, we have no relationship with, or interests in, the District Council.</p>
Fees	<p>The audit fee for the year is \$116,119, as detailed in our Audit Proposal Letter and fee variation letter.</p> <p>Other fees charged in this period are \$6,000, for the review of the debenture trust deed reporting certificate.</p>
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 the District Council 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 the District Council during or since the end of the financial year.</p>



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Meeting: Audit and Risk Committee

Meeting Date: 7 August 2023

Subject: **Audit New Zealand - Audit Plan and Audit Proposal Letter for the Annual Report to 30 June 2023**

File No.: 201300

1 Purpose

The purpose of this report is to provide the committee with the Audit New Zealand - Audit Plan and Audit Proposal Letter for the audit of Council's Annual Report to 30 June 2023.

2 Background

The Local Government Act 2002 requires that councils produce each year an annual report as well as annual report summary and these documents must be audited. The annual report must comply with generally accepted accounting practices which includes the public benefit entity accounting standards.

The audited annual report and annual report summary must be adopted by Council, within 4 months of the end of the financial year and within a month of adoption the reports must be available to the public.

3 Audit New Zealand - Audit Plan and Audit Proposal Letter for the Annual Report to 30 June 2023

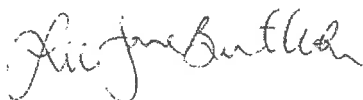
The appendix to this report contains two reports from Audit New Zealand:

- Audit Plan for the year ended 30 June 2023
- Audit Proposal Letter for 2023, 2024 and 2025 financial years

Council's appointed Auditor René van Zyl, Audit Director of Audit New Zealand, will be attending this Audit and Risk meeting to discuss these documents and answer any questions.

4 RECOMMENDATION

That the report "Audit New Zealand – Audit Plan and Audit Proposal Letter for the Annual Report to 30 June 2023" be received.



Lee-Anne Butler, CA, BMS

Group Manager, Finance & Corporate Services

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Audit plan

Kawerau District Council

For the year ended 30 June 2023

Audit plan

I am pleased to present our audit plan for the audit of Kawerau District Council (the District Council) for the year ended 30 June 2023. The purpose of this audit plan is to discuss:

Audit risks and issues	2
Our audit process	9
Reporting protocols.....	15
Audit logistics	16
Expectations	18

The contents of this plan are based on our knowledge of the District Council and discussions with management. We will be happy to elaborate further on the matters raised in this plan.

We are committed to delivering a high-quality audit. Our audit is a risk based public sector audit, which means that we focus on the areas that are most important in that context.

Our work improves the performance of, and the public's trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Nāku noa, nā



René van Zyl
Appointed Auditor
20 July 2023

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and reporting to you.

Audit risk/issue	Our audit response
Significant audit risks	
Fair value assessment of property, plant and equipment	
<p>For those assets that the District Council is not planning to revalue, the District Council should perform a fair value movement assessment (assessment) to determine whether there is a significant difference between the fair value and the carrying value. Where the estimated difference is significant a revaluation may be necessary.</p> <p>An assessment should:</p> <ul style="list-style-type: none"> • factor in local cost information; • utilise relevant and reliable price movement indicators; and • involve consulting with valuers, if necessary. <p>Alternatively the District Council could engage valuers to assist in preparing a fair value assessment.</p>	<p>We will review the reasonableness of the District Council’s assessment including the appropriateness of the assumptions used in the assessment.</p> <p>If the movement of the assets individually or in combination with other asset classes is significant the District Council may need to complete a revaluation. In certain circumstances it <i>may</i> be acceptable to make an adjustment based on the desktop revaluation.</p>
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</p> <p>Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and • evaluating any unusual or one-off transactions, including those with related parties.

Audit risk/issue	Our audit response
Other areas of audit focus	
Three waters reform	
<p>The Three waters reform programme (the Reform) is expected to result in significant structural changes to the management, funding and ownership of water supply, wastewater, and stormwater assets in the local government sector.</p> <p>The Government has recently announced a number of changes to the reform. On 13 April 2023, the Government outlined changes to the number of water services entities and a staggering of their establishment dates starting from early 2025, with all the water services entities to be established by 1 July 2026. The timing of the transfer of assets and liabilities is therefore uncertain until amendments to existing legislation are passed.</p> <p>The Bill to enable the transfer of three waters related assets and liabilities to the water services entities is currently with the select committee and will need to be passed to enable water assets to transfer to the related water entity.</p> <p>The timing of the legislation through Parliament will impact the 30 June 2023 annual report. If the legislation has not passed before 30 June an updated disclosure may still be appropriate. If the legislation is passed before 30 June, there will likely be some additional accounting and disclosure requirements.</p> <p>The District Council should ensure that sufficient disclosure about impact of the reform (to the extent that the impact is known) is included in the annual report.</p>	<p>We will review the District Council’s disclosures to ensure they accurately reflect the significance and uncertainty of the Reforms on the District Council.</p> <p>Because the impact could be significant, but is uncertain, we are likely to include information in our audit report to draw a reader’s attention to the District Council’s disclosure about the Reform.</p>

Audit risk/issue	Our audit response
Drinking water quality performance measures	
<p>Providing safe drinking water is a core function of the council and reporting how the District Council has performed in respect of this function in the annual report is important performance information.</p> <p>The regulatory regime in place over the safety of drinking water has transitioned in the current year from the Drinking Water Quality Standards (DWS) to the new Drinking Water Quality Assurance Rules (DWQARs) which came into effect on 14 November 2022.</p> <p>Performance measures about compliance with the DWS are currently mandated by the Department of Internal Affairs who have issued mandatory performance measures that are required to be reported against in Council's annual report.</p> <p>There are currently no similar performance measures with respect to the new DWQARs. Despite this it is important that the Council includes appropriate performance information about their compliance with the new DWQARs. This performance information will be subject to audit and therefore it is important that Council is able to support the performance results that they report.</p>	<p>We will work with the District Council to agree what performance information and measures would be appropriate and audit the results reported against the agreed measures.</p>
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</p> <p>Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and • evaluating any unusual or one-off transactions, including those with related parties.

Audit risk/issue	Our audit response
New accounting standard - First-time adoption of PBE IPSAS 41 Financial Instruments	
<p>As the District Council is transitioning from PBE IPSAS 29, the transition may result in a number of significant changes.</p> <p>The main changes introduced by PBE IPSAS 41 are that the standard:</p> <ul style="list-style-type: none"> • Introduces a new classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held. This could result in some instruments moving from amortised cost accounting to fair value accounting, or vice versa. • Applies a forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing. • Introduces a hedge accounting model that broadens the hedging arrangements in scope of the guidance and removal of the 80-125% effectiveness "bright line" test. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. Entities that adopt PBE IPSAS 41 have a choice of either adopting the new hedging model of PBE IPSAS 41 or continuing to apply the hedging model of PBE IPSAS 29. • There are also new disclosure requirements as the standards setters believe additional information on risks such as credit risk are increasingly important to users of the financial statements. <p>The District Council will need to prepare an analysis of the classification of its financial instruments in terms of the standards and determine the necessary accounting and disclosure adjustments required.</p> <p>The District Council will need to update its accounting policies and disclosures in the financial statements to reflect the adoption of the</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • Reviewing the transition/first time adoption analysis prepared by the District Council for reasonability. • Reviewing that the updated accounting policies, presentation and disclosure in the financial statements is in accordance with the requirements of the standard. • Reviewing the expected credit loss assessment for significant receivables and other financial assets.

Audit risk/issue	Our audit response
<p>new standard. The 21J Local authorities model financial statements reflect the early adoption of this standard and provide illustrative disclosures.</p>	
New accounting standard - Adoption of PBE FRS 48 Service Performance Reporting	
<p>PBE FRS 48 <i>Service Performance Reporting</i> replaced that part of PBE IPSAS 1 <i>Presentation of Financial Statements</i> that deals with service performance reporting requirements and is effective for annual reporting periods beginning on or after 1 January 2022, that is, for the District Council, it is for the year ended 30 June 2023.</p> <p>The objective of the standard is “to establish principles and requirements for an entity to present service performance information that is useful for accountability and decision-making purposes in a general-purpose financial report”. PBE FRS-48 requires an appropriate and meaningful mix of performance measures and/or descriptions, including, where appropriate, measures of both the goods and services provided and of what has been achieved in the District Council’s areas of responsibility.</p> <p>In addition, PBE FRS 48 imposes additional disclosure obligations on entities. For example, paragraph 44 requires an entity to “disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information reported in accordance with this Standard that are relevant to an understanding of the entity’s service performance information”.</p> <p>Further if the District Council changes what it reports as service performance information compared to the previous year, then PBE FRS 48 requires the District Council to explain the nature of the changes and their effect.</p>	<p>We will review District Council’s compliance with the new standard. We are providing a PBE FRS 48 <i>Service Performance Reporting</i> checklist to the District Council to perform a self-review.</p>
Impairment of Property plant and equipment/Intangible assets	
<p>In accordance with PBE IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i> and PBE IPSAS 26 <i>Impairment of Cash-Generating Assets</i>, at each reporting date management must assess whether there is any indication that an asset may be impaired.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the impairment assessment; • evaluate the reasonableness of the significant assumptions;

Audit risk/issue	Our audit response
<p>If management identifies any indication of an impairment, then they must estimate the recoverable service amount of the asset.</p> <p>Irrespective of whether there are any indications of impairment, intangible assets not yet available for use (i.e. work in progress) and intangible assets with indefinite useful lives must be tested for impairment at least annually.</p> <p>Due to the judgemental nature of the valuations used in assessing impairment there is a risk of bias or error in the assumptions and inputs used. Any bias or errors in the inputs used or calculations performed could result in a material misstatement in the carrying value of property plant and equipment/intangible assets and the related impairment expense.</p>	<ul style="list-style-type: none"> • evaluate how management has addressed estimation uncertainty; and • reperform calculations made by management.

Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant - misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council (as the governing body), with assistance from management. In this regard, we will discuss the following questions with you:

- What role does Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to the Council? Has appropriate action been taken on any lessons learned?

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.parliament.nz/reports/fraud-reports.

Our audit process



Initial planning activities include verifying compliance with independence requirements and building the audit team.



We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of the Council, your business, and the environment you operate in.



We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.



We update our understanding of internal controls relevant to the audit. This includes reviewing the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is done during the initial audit visits. We evaluate internal controls relevant to the audit for the whole financial year, so we consider internal controls relevant to the audit at all visits.



We use the results of the internal control evaluation to determine how much we can rely on the information produced from your systems during our final audit.



During the final audit we audit the balances, disclosures, and other information included in the Council's financial statements and performance information.



We will issue our audit report on the financial statements and performance information. We will also report to the covering any relevant matters that come to our attention.

New auditing standard

ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, is effective for the audit of your financial statements for the first time this year. The standard sets out how auditors identify and assess the risks of material misstatement in financial statements. The standard requires the auditor to understand the entity, its environment, and its internal controls and use that knowledge to identify and assess risks. There are changes to how this is done compared to the previous standard.

There will be additional work required on your audit compared to previous years. In your case, the impact will be in the following areas:

- A greater emphasis on identifying and understanding the IT applications and the other aspects of your IT environment that are subject to risks arising from the use of IT.
- Evaluating the design and implementation of the general IT controls that address the risks arising from the use of IT.
- Considering the new inherent risk factors and updating our risk assessment documentation where relevant to address these risk factors.
- Revisions to the matters we consider in evaluating your system of internal control.
- Strengthened documentation requirements relating to the exercise of professional scepticism. There is a greater emphasis on demonstrating a questioning mind and a critical assessment of audit evidence gathered when performing our risk assessment procedures.

Prioritising higher risk work to ensure an efficient year-end processes

To ensure the year-end annual report and audit thereof are efficient, Council should prioritise their work to ensure higher risk areas and those that involve significant management judgment are planned to be ready for auditing as soon as possible. Timelines for this information should be agreed with us early. Delays in providing this information to us could impact our ability to resolve technical issues late in the audit process.

Examples of areas that typically involve management and auditor judgment include, and should be resolved early include:

- fair value assessments and revaluations of property, plant and equipment held at fair value;
- impairment assessments for property, plant and equipment;
- Provision estimates; and
- Financial assets or liabilities held at fair value.

Materiality

In performing our audit, we apply materiality. In the public sector, materiality refers to information that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and service performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

It is a matter of judgement whether information is material. We consider the nature (qualitative) and amount (quantitative) of each item judged in the surrounding circumstances and its impact. In the public sector qualitative considerations are of equal significance as quantitative considerations. Qualitative considerations are of primary importance in our assessment of materiality in the context of disclosures for transparency and accountability reasons, and in evaluating any non-compliance with laws and regulations.

The Council and management need to consider materiality in preparing the financial statements and service performance information and make their own assessment of materiality from a preparer's perspective. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities. Management and the Council should not rely on our materiality assessment as a basis for owning and making judgements about the integrity of the financial statements and service performance information.

Financial statements materiality

For planning purposes we have set **overall materiality** for the financial statements at \$7,700,000 based on budgeted total assets. This is subject to change once the actual results for the current year are available. For this audit we are only applying this overall materiality to the fair value of property, plant and equipment.

For this audit we have set a lower, **specific materiality** of \$495,000 for all items not related to the fair value of property, plant and equipment.

We also set a lower, **specific materiality** for some items due to their sensitivity. For example, we apply a lower specific materiality to related party and key management personnel disclosures.

Overall materiality	\$7,700,000
Specific materiality	\$495,000
Clearly trivial threshold	\$24,750

We design our audit procedures to detect misstatements at a lower level than overall materiality. This takes account of the risk of cumulative misstatements and provides a safety net against the risk of undetected misstatements.

We will report all uncorrected misstatements other than those that are **clearly trivial**. We consider misstatements of less than \$24,750 to be clearly trivial for the financial statements unless there are qualitative considerations that heighten its significance. We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from management on the reasons why the corrections will not be made.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader’s overall understanding of your financial statements and service performance information. The effects of any detected and uncorrected misstatements, individually and in aggregate, are assessed against overall materiality and qualitative considerations.

Overall financial statement materiality does not apply to any matters of effectiveness and efficiency, waste, or a lack of probity or financial prudence.

Materiality for service performance information

At an overall level, we assess whether the service performance information is suitable, given your purpose and the nature of your activities, and whether the reporting allows for an informed assessment of the District Council’s performance. In doing this we consider whether the information is relevant, complete, reliable, neutral, and understandable.

We set materiality for service performance information at an individual measure level based on what we expect would influence readers’ overall understanding, decision making, or assessment of the District Council’s performance. We consider a variety of factors including the level of public interest and potential public risk. Because of the variety of measurement bases applied, we normally express this materiality as a percentage of the reported result.

We have identified the following measures as material and assessed materiality for planning purposes. We will reassess this during the audit.

Material measure	Materiality % of the reported result
<p>Water supply – the extent to which the local authority’s drinking water supply complies with:</p> <ul style="list-style-type: none"> (a) part 4 of the drinking-water standards (bacteria compliance criteria), and (b) part 5 of the drinking-water standards (protozoal compliance criteria). 	<p>The result reported is either right or wrong. It is not appropriate to set a materiality level.</p>
<p>Water supply – where the local authority attends a call-out in response to a fault or unplanned interruption to its networked reticulation system, the following median response time measured:</p> <ul style="list-style-type: none"> - resolution of urgent call-outs: from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption. - discharge compliance/management of environmental impacts. 	<p>8%</p>

Material measure	Materiality % of the reported result
Wastewater – compliance with the territorial authority’s resource consents for discharge from its sewerage system measured by the number of: <ul style="list-style-type: none"> (a) abatement notices (b) infringement notices (c) enforcement orders, and (d) convictions, received by the territorial authority in relation to those resource consents.”	8%
Roading and footpaths – the change from the previous financial year in the number of fatalities and serious injury crashes on the local road network, expressed as a number.	8%
Roading and footpaths – the average quality of ride on a sealed local road network, measured by smooth travel exposure.	8%

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term “opinion” reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

How we consider compliance with laws and regulations

As part of the Auditor-General’s mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

Wider public sector considerations

A public sector audit also examines whether:

- the Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by the Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the Council or by one or more of its members, office holders, or employees.

Reporting protocols

Communication with management and the Council



We will meet with management and the Council's audit committee throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are "no surprises".

Reports to the Council



We will provide a draft of all reports to management for discussion/clearance purposes. Once management comments are received the report will be finalised and provided to the Council.

We will also follow up on your progress in responding to our previous recommendations.

Audit logistics

Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Our senior audit team members are:

René Van Zyl	Appointed Auditor
Kataraina Macown	Audit Manager
Senzo Pato	Audit Supervisor

Timetable



Our proposed timetable is:

Interim audit begins	19 June 2023
Interim draft report to the Council issued	14 July 2023
Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures	18 September 2023
Final audit begins	18 September 2023
Annual report available, including any Chair and Chief Executive's overview or reports	7 October 2023
Verbal audit clearance given	18 October 2023
Audit opinion issued	25 October 2023
Draft report to the issued	1 November 2023

AuditDashboard

In 2022, we used AuditDashboard, our online portal, to transfer files between your employees and Audit New Zealand. Overall, the use of AuditDashboard made it easy to fulfill requests. Real-time status updates provided greater visibility to everyone and helped to keep everyone organised and on the same page.

We will use AuditDashboard for transferring files as part of the audit.

Working remotely

Covid-19 restrictions, such as lockdowns, and resultant changes to our own and our client's work locations, including increasing numbers working from home since the start of the pandemic have meant we changed how we worked with our clients over the last two years.

Lockdowns meant that our clients and our auditors did not always have access to their premises and information and had to work remotely. For clients able to work remotely, with access to systems and electronic documentation, as well as being prepared for the audit, audits continued to progress and progress well.

Performing our audit work during higher alert level restrictions confirmed that aspects of our audit work can be done efficiently off-site. We plan to continue to perform aspects of your audit remotely as there are some benefits to you and us of having our team off-site for parts of the audit. For you these benefits include:

- Staging and sending the information we request for audit over an agreed period of time as opposed to having all the information requested ready for our arrival at one agreed date.
- Less time spent on travel, so we will have more time focus on auditing what matters and raising issues earlier.
- Reduction in disbursements as we will incur less travel and overnight costs.
- Less auditor time on site which allows you to get on with your work and enables planned focused conversations when these take place.

To enable audit work to be completed off-site and fully obtain the benefits detailed above, you will need to ensure that you can provide supporting documents electronically.

During the previous audit, we were able to perform some of our audit work remotely. Based on our experience we found that has some systems and processes in place but these will only facilitate a portion of the any off-site work.

We recognise different organisations are positioned differently to enable off-site audit work. We will be discussing and agreeing off-site working expectations in conjunction with our information requests with you as part of your 2023 audit. This will include our expectation that AuditDashboard will be used, which is a safe and secure way of transferring information and documentation between you and us.

Expectations



For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit.

Health and safety



The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

www.auditnz.parliament.nz

PO Box 621
Tauranga 3144
Phone: 04 496 3099



31 July 2023

Level 4, 127 Alexandra Street
PO Box 256, Hamilton 3240
Ph 04 496 3099

Ref: EN/LCA/03-0020 T940

Faylene Tunui
Mayor
Kawerau District Council
Private Bag 1004
Kawerau 3169

Copy: Manager, Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington 6140

Tēnā koe Faylene

Proposal to conduct the audit of Kawerau District Council on behalf of the Auditor-General for the 2023, 2024, and 2025 financial years

1 Introduction

As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit of Kawerau District Council for the three financial years ending 30 June 2023, 2024, and 2025.

The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities and assurance engagements covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial years ending 30 June 2023, 2024, and 2025;
- assumptions relating to the proposed audit fees, including what we expect of your Council;
- what the OAG Audit Standards and Quality Support charge provides;
- certification required by the Auditor-General; and
- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

2 Statutory basis for the audit and how audit fees are set

The audit of Kawerau District Council is carried out under section 15 of the Public Audit Act 2001, which states that “the Auditor-General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited”.

Fees for audits of public entities (including Councils) are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, your Council and I can reach agreement first and recommend those fees for approval. The Auditor-General, with assistance from the OAG, will set audit fees directly only if we fail to reach agreement.

The Public Audit Act 2001 requires the Auditor-General to make sure that audit fees are “reasonable” for the auditors and for each of the entities audited. Parliament has indicated that it expects the cost of annual audits under the Act (which include an OAG Audit Standards and Quality Support charge) to be funded by public entities.

Over recent years, audit fees for many public entities have not kept pace with the real costs of the audit for a range of reasons, including the effect of new accounting and auditing standards and the changing scale and complexity of many public entities’ activities. A general concern about low fees impacting on auditors’ ability to maintain consistent audit quality has also been raised by regulatory bodies here in New Zealand and overseas.

Low fees are unsustainable and need to be rectified. The Auditor-General has decided to allow fee increases to a level that reflects the real time and cost of the audit. The size of increases will vary depending on the reasonableness of the current fee paid by each entity and any changes that have occurred since the last fees were agreed. We acknowledge that in many instances significant increases will be required, and in those instances we are open to discuss how to phase in the increases in a manner that is fair for both parties.

Our fees will take account of the nature and extent of the audit requirements for each Council. The audit hours in this proposal reflect the time required to complete a high-quality public sector audit efficiently.

The fees are based on charge-out rates that will ensure we can maintain the capacity needed to complete your audits. The global and local auditor shortage is having a continuing impact and has resulted in significant salary inflation. The current economic uncertainty and general inflation have also contributed to charge out rates increasing significantly.

Our proposed audit fees are set out in this letter and include an estimate of the reasonable cost of disbursements (including travel and accommodation where necessary).

The Office of the Auditor-General will be monitoring the outcome of the negotiations to ensure that fees are reasonable.

Councils can take actions to ensure the efficiency of their audit. This includes being well prepared for audit, ensuring complex judgement issues are addressed early, regularly communicating with your auditor about any changes that might impact your reporting or the audit, , having tidy systems and controls, and ensuring that relevant people are available to assist the auditors as they carry out their audit work. I welcome further discussion with you on opportunities for reducing the time and costs of your audit.

3 Entities assurance engagements covered by this proposal

This proposal covers the audit of Kawerau District Council, including the Debenture Trust Deeds, for the next three years.

A separate Engagement Letter and fee proposal will be provided for the Debenture Trust Deed audit.

4 Key members of the audit team

Appointed Auditor	René van Zyl
Audit Manager	Kataraina Macown
Tax Director	Jason Biggins
Information Systems Director	Dieter Röhm

5 Estimated audit hours

We estimate that the following hours will be required to carry out a quality public sector audit for your Council efficiently. We have also included some information to help you understand how this compares with budgeted and actual data from the previous financial year:

Audit team member	2022 budget	2022 actual*	2023	2024	2025
Appointed Auditor	42	188	52	52	52
Audit Manager	70	277	80	80	80
Other CA qualified staff	169	373	180	180	180
Non-CA qualified staff	300	496	400	400	400
Other specialists	21	0	28	28	28
Total audit hours	602	1,334	740	740	740

***Note** – actual hours have been significantly above budget due to reasons from both audit and Council side. Additional audit hours spent due to the change in Appointed Auditor close to the end of the 2021/22 audit came to ± 95 hours. Audit manager hours were also increased as the new Appointed Auditor had to be brought up to speed and we estimate the additional hours were ± 85 hours.

The reasons attributable to Council was predominantly due to four key areas;

- additional work required to gain assurance of the valuation, i.e., confirmation of unit rates and testing assumptions;
- a significant number of drafts of the annual report and summary annual report to check, adjust and update the audit file;

- the quality of information delivery during the initial audit period was lacking and required going backwards and forwards to get the right information; and
- significant more work around the Porritt Glade Retirement Village than initially scoped.

5.1 Reasons for changes in audit hours

The major reasons for the changes in hours for your organisation’s audit going forward are:

Reasons for increased or decreased audit hours compared to previous period <i>budgeted</i> hours:	2023	2024	2025
Changes within your Council, or in its environment – such as changes in group structure, additional areas of (or additional work on) high-risk accounting estimates, additional material performance measures, other matters changing the risk profile or complexity, which have resulted in a change to the size or complexity of the audit.	48		
Changes to applicable accounting or financial reporting standards which result in additional audit work. <ul style="list-style-type: none"> • PBE FRS 48 • PBE IPSAS 41 • ISA (NZ) 315 (2019 REVISED) 	60		
Additional hours required for us to complete a high-quality public sector audit efficiently	30		
Total increase (decrease) in audit hours	138		

5.2 Other matters that may impact the scope of the audit and actual audit hours

There are several emerging reporting and auditing challenges in the sector that will potentially require additional audit effort and cost over the next three years. At this point, the impact of these on your Council is unknown, so we have not included any allowance in our audit hours or fees. They include:

- The impact of extreme weather events including the January 2023 flood events.
- The impact of implementation of new legislation, including that relating to three waters reform, and/or Resource Management Act reforms.
- The impact of any climate reporting requirements, or Greenhouse Gas (GHG) performance measures.
- CCO performance measures related to climate change or GHG that are material to a group.
- Out of cycle, additional revaluations, including as a result of continued movements in property values and infrastructure construction costs.

- The impact of future growth of your Council, including changes within your Council's group structure; and/or
- Changes in the number of material measures, for example, new water loss measures.

Where costs related to these issues cannot be absorbed within the agreed fee, we will inform management and seek additional fee recoveries through our normal processes.

6 Proposed audit fees

Our proposed fees for the next three audits (compared to budgeted and actual data from the previous financial year) are:

Structure of audit fees	2022 budget	2022 actual	2023	2024	2025
	\$	\$	\$	\$	\$
Net audit fee	97,114	279,715	135,901	146,795	158,456
OAG Audit Standards and Quality Support charge	10,304	10,304	14,074	14,707	15,369
Total audit fee (excluding disbursements)	107,418	290,019	149,975	161,502	173,825
Estimated disbursements*	8,000	12,977	10,000	11,000	12,000
Total billable audit fees and charges	115,418	302,996	159,975	172,502	185,825
GST	17,313	45,449	23,996	25,875	27,874
Total (including GST)	132,731	348,445	183,971	198,377	213,699

These audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG Audit Standards and Quality Support charge.

*We have estimated the reasonable cost of disbursements (including travel and accommodation where necessary).

Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

6.1 Reasons for changes in audit fees

In table 5.1 we showed the factors that have resulted in a change of audit hours. The cost impacts of those changes are shown in the table below.

Reasons for increased or decreased audit fees compared to previous period <i>budgeted</i> fees.	2023	2024	2025
Changes within your Council, or in its environment as detailed in 5.1 above.	10,789	0	0
Changes to applicable accounting or financial reporting standards which result in additional audit work. <ul style="list-style-type: none"> • PBE FRS 48 • PBE IPSAS 41 • ISA (NZ) 315 (2019 REVISED) 	13,486	0	0
Additional hours required for us to complete a high-quality public sector audit efficiently.	6,743	0	0
Predicted charge out rate movements.	7,769	10,894	11,661
Total increase (decrease) in audit fees	38,787	10,894	11,661

7 Assumptions relating to our audit fee

You are responsible for the production of Kawerau District Council's financial statements and anything else that must be audited. Our proposed audit fees are based on the assumption that:

- you will provide to us, in accordance with the agreed timetable, the complete information required by us to conduct the audit;
- your staff will provide us with an appropriate level of assistance;
- your Council's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review by you before being submitted to us for audit;
- your Council's financial statements will include all relevant disclosures;
- we will review **up to two** sets of draft annual reports, **one** printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website);
- there are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us);

- there are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work (other than as specified in tables 5.1 and 6.1);
- there are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above; and
- there are no significant changes to the agreed audit arrangements (set out in the audit plan) that change the scope of, timing of, or disbursements related to, this audit.

If the scope changes and/or the amount of work we do increases, we will discuss this with you and potentially seek additional fees from you. The Office of the Auditor-General will be monitoring these recoveries to ensure that they are reasonable.

8 What the OAG Audit Standards and Quality Support charge provides

Parliament has indicated that it expects the cost of annual audits under the Public Audit Act (including an OAG Audit Standards and Quality Support charge) to be funded by public entities.

The OAG Audit Standards and Quality Support charge partially funds a range of work that supports auditors and entities, including:

- development and maintenance of auditing standards;
- technical support for auditors on specific accounting and auditing issues;
- ongoing auditor training on specific public sector issues;
- preparation of sector briefs to ensure a consistent approach to annual audits;
- development and maintenance of strategic audit plans; and
- carrying out quality assurance reviews of all auditors, and their audits and staff on a regular (generally, three-year) cycle.

Appointed Auditors are required to return the OAG Audit Standards and Quality Support charge portion of the audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in the audit engagement agreement and schedules.

10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please do not hesitate to contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Nāku noa, nā



René van Zyl
Appointed Auditor

I accept the audit fees for the audit of the three financial years as stated above.

Full name: Faylene Tunui Position: Mayor

Authorised signature: _____ Date: _____

Entity name: Kawerau District Council

Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to: René van Zyl
PO Box 1165
Auckland 1140

Meeting: Audit and Risk

Meeting Date: 7 August 2023

Subject: Review of Council's Fraud & Corruption Policy

File No.: 201300

1 Introduction

The purpose of this report is to extend Council's current Fraud Policy to cover corruption and bribery.

The Fraud Policy was reviewed by the Audit and Risk Committee at the 13 February 2023 meeting, with amendments made. The updated Fraud Policy was then adopted by Council on 26 April 2023. The fraud policy is being further reviewed, following the recommendation by Council's Auditors, as raised in the Audit Management Report that Council should also include corruption and bribery as part of its policy.

2 Background

The Office of the Auditor-General requires every public entity to formally address the matter of fraud and formulate an appropriate policy on how to minimise it and if it occurs, how to deal with it. Audit also require that Corruption and Bribery are included in a policy.

Kawerau District Council needs to protect its revenue, property and information. The fraud policy has been established to facilitate the development of controls that will aid in the detection and prevention of fraud against the Council.

A comprehensive fraud policy should contain the following key elements:

- An explicit definition of actions considered to be fraudulent
- The allocation of responsibility for the overall management of fraud
- A statement that all appropriate measures will be taken to deter fraud
- A formal procedure to be followed if fraud is suspected
- A statement saying that all instances of suspected fraud will be investigated and reported to the appropriate authorities (if fraud has occurred)
- A statement that all fraud offenders will be prosecuted and police will be notified to assist with any investigation required
- A statement that all efforts will be made to recover Council assets
- Encouraging staff to report any suspected fraud
- The steps to be taken when fraud is suspected and who is responsible for the investigation
- Responsible for reporting fraud to elected members and Council's auditors

Initial amendments were made to the Fraud Policy in 2020 following recommendations by Council's auditors to ensure that it followed best practice. With further recommendations from Council's Auditors, the Fraud Policy will now also include corruption.

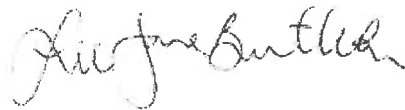
3 Fraud and Corruption Policy

The Fraud Policy has been updated to include corruption and bribery, across the policy, including a definition of corruption. Under section 4 of the policy, many of the actions constituting fraud, do also cover situations that could be deemed corruption. This section has been updated to include additional examples of fraud and corruption, however the terms are not limited to just those listed.

The appendix to this report contains the updated Council Fraud and Corruption Policy for the committee's review.

4 RECOMMENDATIONS

1. That the report "Review of Council's Fraud and Corruption Policy" be received.
2. That the Audit and Risk Committee approves the Fraud and Corruption Policy (with any further amendments).



Lee-Anne Butler, CA, BMS

Group Manager Finance and Corporate Services

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COUNCIL POLICY**TITLE** **FRAUD AND CORRUPTION POLICY****EFFECTIVE DATE:** August 2023**FILE REFERENCE:** 201300**NEXT REVIEW:** 2026**1. PURPOSE**

- 1.1 The purpose of this policy is to provide guidance for the prevention, detection and response to fraud and corruption within Kawerau District Council
- 1.2 Kawerau District Council ("Council") is committed to protecting its revenue, property, information and other assets from any attempt to gain financial or other benefits from it by deceit and preventing the occurrence of fraud and corruption. This fraud and corruption policy has been established to facilitate the development of controls that will aid in the detection and prevention of fraud and corruption against the Council.
- 1.3 Kawerau District Council employees, appointees and Elected Members are expected to maintain the highest ethical standards of honesty and integrity.
- 1.4 Fraud is defined as the use of deception with the intention of obtaining personal gain, an unlawful advantage, avoiding an obligation, or causing loss to another party.
- 1.5 Corruption is defined as the lack of integrity or honesty or the abuse of a position of trust for dishonest personal gain. It may include but not limited to both foreign and domestic bribery, coercion, destruction, removal or inappropriate use of or disclosure of records, data, material, intellectual property or assets, or any similar or related inappropriate conduct.
- 1.6 It is the intent of Council to promote an anti-fraud and anti-corruption culture by providing these guidelines and by assigning responsibility for the development of controls and conduct of investigations. Council has a zero-tolerance approach to fraud, corruption and bribery.
- 1.7 The Office of the Auditor-General requires every public entity to formally address the matter of fraud and formulate an appropriate policy on how to minimise it and if it occurs, how to deal with it.

2. SCOPE

- 2.1 This policy applies to any fraud, corruption, bribery impropriety or dishonesty, suspected or actual and relates to all property, funds and services, as well as statutory responsibilities.
- 2.2 This policy applies to all employees of Council or Council appointees to other organisations as well as Elected Members, consultants, vendors, contractors or any other parties having a business relationship with Council.
- 2.3 This policy also covers allegations made by Council employees, appointees or Elected Members against other employees, appointees or Elected Members.
- 2.4 There may be particular risks that increase the likelihood of fraud or corruption occurring, which include:
 - *Incentives/pressures:* Management, other staff or external parties are under pressure or there are incentives for them to commit fraud or corruption.
 - *Opportunities:* Circumstances or lack of controls allow employees to commit fraud or corruption. Also employees are able to get around or override ineffective controls (for example officers are able to approve their own sensitive expenditure)
 - *Attitudes:* Employees are able to rationalise committing fraud or corruption (for example believing that everyone else is doing it, or that it was so easy for me).

The policy will identify processes for management to put in place to minimise these particular risks as much as practicable.

- 2.5 The Fraud and Corruption Policy is a separate policy to other council policies, but will overlap with some policies. These include:
 - *Sensitive Expenditure Policy:* This policy deals with staff/councillor sensitive expenditure which includes travel, accommodation, hospitality and gifts. The policy specifies the processes and procedures which are required when incurring sensitive expenditure. Fraud occurs when the sensitive expenditure is not followed and Council is deliberately charged an individual's private costs.
 - *Code of Conduct:* This governs the behaviour of elected members and requires them to act with integrity, honesty and in the public interest. The behaviour and actions of elected members (as well as) should always be in the interests of the community and open to public scrutiny. If an elected member uses their position to obtain a financial benefit that may be to the cost/detriment of Council, then this will amount to fraud and corruption.

3. POLICY OBJECTIVE

- 3.1 Council personnel (defined as Council employees or appointees and elected members) must have, and be seen to have, the highest standards of honesty, propriety and integrity in the exercise of their duties.

- 3.2 Council will not tolerate any fraud, corruption, bribery, impropriety or dishonesty and will investigate all instances of suspected fraud, corruption impropriety or dishonesty by Council personnel or external parties.
- 3.3 Council personnel must not defraud the Council, or other personnel, clients or contractors of Council. Council personnel must not use their position of trust for dishonest gains through corruption.
- 3.4 Council will take action – including dismissal and/or criminal prosecution against any personnel defrauding or attempting to defraud the Council, other personnel, clients or contractors of Council. In each case, the Council will make every effort to gather sufficient reliable evidence to support a prosecution. Council will ensure appropriate external advice is sought early for significant fraud or corruption issues for timely assistance in obtaining the appropriate evidence required.
- 3.5 Council will always seek to recover funds or goods (or the estimated value of the goods where they have been disposed of) lost through fraud.

4. ACTIONS CONSTITUTING FRAUD AND CORRUPTION

- 4.1 The terms fraud, corruption, bribery, impropriety and dishonesty refer to, but are not limited to:
 - Any dishonest or fraudulent act.
 - Any biased or corrupt act.
 - Misappropriation of funds, securities, supplies, resource or other assets.
 - Impropriety in the handling or reporting of money or financial transactions.
 - Forgery or alteration of any document, financial instrument or computer file or records belonging to Council.
 - Profiteering as a result of insider knowledge of Council activities or the activities of organisations with a Council appointee.
 - Disclosing confidential and proprietary information to outside parties.
 - Disclosing to other persons, securities, activities engaged in, or contemplated by the Council or any organisation with a Council appointee.
 - Seeking or accepting anything of material value from contractors, vendors, or persons providing services/materials to the Council or any organisation with a Council appointee. Gifts valued at less than \$100 per annum, or otherwise approved by the Chief Executive Officer, are exempt.
 - Unauthorised use of council property including property leased by Council.
 - Destruction, removal, or inappropriate use of records, Council resources, furniture, fixtures, and equipment.
 - Improper use of knowledge, power or resources of position of trust for personal gain or for the advance of others.

- Knowingly providing false, misleading or incomplete information to circumvent Council's procurement processes and procedures.
- Any similar or related irregularity.

If there is any question as to whether an action constitutes fraud or corruption contact the Chief Executive Officer or Group Manager, Finance and Corporate Services for guidance.

5. MANAGEMENT RESPONSIBILITIES

- 5.1 Management is responsible for the detection and prevention of fraud, corruption, bribery, impropriety and dishonesty. Each member of the management team will be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indication of irregularity.
- 5.2 Management should be alert to the possibility that unusual events may be symptoms of fraud or attempted fraud and that fraud and corruption may be highlighted as a result of management checks, or be brought to management's attention by a third party. Management is responsible for:
- Being aware of fraud or corruption
 - Ensuring that an adequate system of internal controls exists within its area of responsibility and that those controls are operating effectively. These controls should include a system for undertaking regular reviews of transactions and activities that may be susceptible to fraud.
- 5.3 Any irregularity that is detected or suspected must be reported immediately to the Chief Executive Officer, who co-ordinates all investigations.
- 5.4 Management will promote ethical behaviour through Council's induction, training and performance development programmes.
- 5.5 Management will seek to minimise as much as possible the risks associated with:
- Incentives/pressures
 - Opportunities
 - Attitudes

This will be done by: making sure that the fraud and corruption policy is circulated regularly to all staff, undertaking regular reviews of the internal control systems, requiring all sensitive expenditure to be approved on a one-up basis, any reported

incidences of potential fraud or corruption are investigated thoroughly and the policy is applied consistently to all council staff.

- 5.6 Employees may disclose fraud or corruption under the provisions of the Protected Disclosures (Protection of Whistleblower) Act 2002, and the disclosure will then be treated in accordance with the provisions of the Act.
- 5.7 Council is committed to its legal obligations to act fairly, honestly and in good faith when conducting fraud or corruption investigations.

6. INVESTIGATION RESPONSIBILITIES

- 6.1 The Chief Executive Officer has the primary responsibility for the investigation of all suspected fraudulent or corrupt acts as defined in the policy. This may require the formation of an Investigation Team comprised of suitably qualified persons, who may be staff or external parties as deemed appropriate. This responsibility will include full documentation of the facts and circumstances of the matter.
- 6.2 If the suspected fraud or corruption involves the Chief Executive Officer, the External Appointee to the Audit and Risk Committee will have the primary responsibility for conducting the investigation in consultation with the Mayor.
- 6.3 If the suspected fraud or corruption involves the Mayor or other elected member, the External Appointee to the Audit and Risk Committee will have the primary responsibility for conducting the investigation in consultation with the Chief Executive Officer.
- 6.4 Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with legal counsel and senior management.

7. CONFIDENTIALITY

The Chief Executive Officer will treat all information received confidentially. Any employee who suspects dishonest, fraudulent or corruption activity will notify the Chief Executive Officer immediately and should not attempt to personally conduct investigations or interviews/interrogations related to any suspected fraudulent or corruption act.

8. AUTHORISATION FOR INVESTIGATING SUSPECTED FRAUD OR CORRUPTION

Members of the Investigation Team as appointed by the Chief Executive Officer will have:

- Free and unrestricted access to all Council records and premises, whether owned or rented.
- The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior

knowledge or consent of any individual who might use or have custody of any such items or facilities when it is within the scope of the Team's investigation.

Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title or relationship to Council.

9. REPORTING PROCEDURES

- 9.1 Great care must be taken in the investigation of suspected improprieties or irregularities, to avoid mistaken accusations, or alerting suspected individuals and staff not involved in the investigation that an investigation is under way.
- 9.2 An employee who discovers or suspects fraudulent or corrupt activity will notify the appropriate person immediately, as per the procedures laid down in the Council's Protected Disclosures Policy. The employee or other complainant may remain anonymous. All inquiries concerning the activity under investigation from the suspected individual, his or her attorney or representative, or any other inquirer should be directed to the Chief Executive Officer. No information concerning the status of an investigation will be divulged.
- 9.3 The reporting individual should be informed of the following:
 - Do not contact the suspected individual in an effort to determine facts or demand restitution.
 - Do not discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by the Chief Executive Officer or members of the Investigation Team.
- 9.4 If the investigation by the Chief Executive Officer, or members of his appointed Investigation Team, substantiates that fraudulent or corrupt activities have occurred, the Chief Executive Officer will decide the action to be taken, which may include termination of employment.

10. TERMINATION

Investigations could result in the termination of employment. If an investigation results in a recommendation to terminate an individual's employment, the recommendation will be reviewed by the Human Resources Manager, and by legal counsel if necessary, before any such action is taken.

For all fraud or corruption cases, the evidence of the fraud or corruption will be provided to the Police or Serious Fraud Office to determine whether there is a prosecution.

Council will not provide any formal reference to any individual that has been found to have committed fraud or corruption, nor should any council officer be a referee for that individual.

11. MANAGING THE PUBLIC RELATIONS REGARDING FRAUD

The Chief Executive Officer will notify the Mayor and the Independent Chair of the Audit and Risk Committee of any incidents of fraud or corruption that are under investigation.

The Chief Executive Officer will report to Council and the Audit and Risk Committee on any fraud or corruption investigation when it has reached a stage that they consider appropriate.

The Chief Executive Officer will also advise Council's auditors at the same time.

Any questions from the media in relation to fraud or corruption will be dealt with by the Chief Executive Officer or the Mayor.

Meeting: Audit and Risk Committee

Meeting Date: 7 August 2023

Subject: Long-Term Plan 2024-2034 Timetable

File No.: 110555

1 Purpose

The purpose of this report is to inform the committee of the proposed timetable for the 2024–2034 Long-Term Plan.

2 Background

The Local Government Act 2002 requires Council to prepare a Long-Term Plan at least every three years and an annual plan in the years that it does not produce a Long-Term Plan.

Council must consult with the community on the Long-Term Plan using the special consultative procedure which includes preparing a consultation document.

The Long-Term Plan has to include a number of policies and strategies which are prepared in conjunction with the plan. Therefore, a significant amount of work is required prior to the final Long-Term Plan being adopted.

There is a requirement under the Local Government Act 2022, that the Long-Term Plan must be audited, as well as the Consultation Document for the Long-Term Plan. Funding for the cost of the Long-Term Plan Audit was included in the 2023-24 budget.

The Long-Term Plan must be adopted prior to the commencement of the year to which it relates (that is before 1 July 2024). Therefore, staff have prepared a timetable for the preparation of this plan to ensure that all the necessary tasks are undertaken prior to the adoption.

3 Proposed Timetable for preparation and adoption of Long-Term Plan

The appendix to this report contains the proposed timetable for the preparation and adoption of the Long-Term Plan 2024-2034.

There are two audit reviews required for the Long-Term Plan. The first audit is tentatively booked for March 2024, for the Long-Term Plan Consultative Document and then the final audit of the full Long-Term plan is scheduled for the end of May 2024 to ensure Council meets the statutory timeframe of adoption by 30 June 2024. The audit dates still require discussion and confirmation from Audit New Zealand.

4 **RECOMMENDATION**

That the report "Long-Term Plan 2024-2034 Timetable" be received.



Lee-Anne Butler, CA, BMS

Group Manager, Finance & Corporate Services

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APPENDIX

Project Plan for 2024 – 2034 Long-Term Plan

	Tasks	Completion
1	Significance and Engagement Policy	20/10/2023
2	Consultation policy	20/10/2023
3	Activity structure	28/09/2023
4	Significant forecasting assumptions	30/11/2023
5	Rates review	30/11/2023
6	Financial strategy	28/09/2023
7	Revenue and financing policy	30/11/2023
8	Liability management policy	28/09/2023
9	Investment policy	28/09/2023
10	Development or financial contribution	30/11/2023
11	Rates remission/postponement	30/11/2023
	ASSET MANAGEMENT PLANS & STRATEGY	
12	Roading	02/10/2023
13	Water Supply	02/10/2023
14	Wastewater	02/10/2023
15	Stormwater	02/10/2023
16	Community Facilities & Property	30/11/2023
17	Parks & Reserves	02/10/2023
18	Infrastructure Strategy (30 years)	31/10/2023
	ACTIVITY REVIEWS (sec 17A) & PLANS	
19	Democracy	02/10/2023
20	Economic and community development	30/11/2023
21	Residential Development & Housing	31/10/2023
22	Environmental services	30/11/2023
23	Roading	02/10/2023
24	Stormwater	02/10/2023
25	Water supply	02/10/2023
26	Wastewater	02/10/2023
27	Assessment of water and other sanitary services	31/10/2023
28	Solid Waste Management	31/10/2023
29	Leisure and recreation activities	30/11/2023
30	Waste management and Minimisation Pan	31/10/2023

	Tasks - continued	Completion
	FINANCIALS	
31	Prepare 2024 – 2034 LTP (Budget Book) - circulate	02/10/2023
32	Prepare/Provide budgets	31/10/2023
33	Prepare Budget (Red Book)	30/11/2023
34	Agree budget for community consultation	13/12/2023 & 31/01/2024
	CONSULTATION	
35	Pre-Consultation with community	10/08/2024 to 25/08/2024
36	Prepare Consultation Document – LTP Statement of Proposal	01/03/2024
37	Adoption of draft LTP - Statement of Proposal	13/03/2024
38	Audit of LTP Statement of Proposal	11/03/2024 to 22/3/2024
39	Adoption of LTP Statement of Proposal/Draft LTP	27/03/2024
40	Special Consultation Period	02/4/2024 to 02/5/2024
41	Hear and Deliberate submissions	15 & 16/05/24 & 22/5/2024*
	LONG-TERM PLAN ADOPTION	
42	Prepare performance targets (non-financial)	08/12/2023
43	Prepare draft 2024 – 2034 LTP	01/03/2024
44	Audit of 2024 – 2034 Long-Term Plan	27/5/2024 to 07/6/2024
45	Adopt 2024 – 2034 Long-Term Plan	26/06/2024

* Only if required