

Notice is given that an ordinary meeting of the Audit Subcommittee will be held on:

**Date:** Thursday 18 April 2013  
**Time:** 1.30 pm or following Council Workshop  
**Meeting Room:** Tasman Council Chamber  
**Venue:** 189 Queen Street  
Richmond

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## Audit Subcommittee

### AGENDA

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#### MEMBERSHIP

<b>Chairperson</b>	Cr G A Glover
<b>Members</b>	Cr J L Inglis
	Cr C M Maling
	Cr P F Sangster
	Cr T E Norriss
	Cr T B King

(Quorum 2 members)

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## **AGENDA**

**1 OPENING, WELCOME**

**2 APOLOGIES AND LEAVE OF ABSENCE**

**Recommendation**

That apologies be accepted.

**3 DECLARATIONS OF INTEREST**

**4 CONFIRMATION OF MINUTES**

That the minutes of the Audit Subcommittee meeting held on Thursday, 7 March 2013, be confirmed as a true and correct record of the meeting.

**5 REPORTS OF COMMITTEE**

Nil

**6 PRESENTATIONS**

Nil

**7 REPORTS**

- 7.1 Action Sheet from 7 March 2013 Meeting ..... 5
- 7.2 Report of Audit Engagement Letter ..... 9



## 7 REPORTS

### 7.1 ACTION SHEET FROM 7 MARCH 2013 MEETING

Information Only - No Decision Required

**Report To:** Audit Subcommittee  
**Meeting Date:** 18 April 2013  
**Report Author:** Mike Drummond, Corporate Services Manager  
**Report Number:** RFN13-04-16  
**File Reference:** C761

#### 1 Summary

1.1 The Action Items are attached from the 7 March 2013 Audit Subcommittee.

#### 2 Draft Resolution

**That the Audit Subcommittee receives the Action Sheet from 7 March 2013 Meeting RFN13-04-16.**

#### 3 Appendices

1. Action Sheet

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**Audit Subcommittee – Action Sheet**

Item	Minute/Action	Minute or CSR or Email request	Accountable Officer	Status
<b>Meeting Date: 8 November 2012</b>				
	Depreciation Funding	Report from 1998 to be circulated to Subcommittee members.	M Drummond	Unable to locate the Council report. The review will be completed in due course by the Corporate Services Manager





**7.2 REPORT OF AUDIT ENGAGEMENT LETTER****Decision Required**

<b>Report To:</b>	Audit Subcommittee
<b>Meeting Date:</b>	18 April 2013
<b>Report Author:</b>	Mike Drummond, Corporate Services Manager
<b>Report Number:</b>	RFN13-04-17
<b>File Reference:</b>	

**Item 7.2****1 Summary**

- 1.1 Section 99 of the Local Government Act 2002 requires that all Local Authorities must have their Annual Report, and Summary Annual Report audited by the Auditor General. For Tasman District Council the audit is carried out by Audit New Zealand on behalf of the Office of the Auditor General. At the commencement of the audit the terms, scope, timing of work and completion date, fee structure, and areas of cover are agreed between Council and Audit New Zealand. These matters are all contained in the Letter of Engagement. This report brings the Draft Letter of Engagement for the June 2013 Audit to the Subcommittee for approval.

**2 Draft Resolution****That the Audit Subcommittee:**

- 1) receives the Report of Audit Engagement Letter for the Audit of Council's Annual Report and Debenture Trust for the year ended 30 June 2013; and**
- 2) authorises the Mayor to sign the agreement for the audit.**

### **3 Purpose of the Report**

- 3.1 To receive the Audit engagement letter for the audit of Council's Annual Reports for the year ended 30 June 2013.

### **4 Background and Discussion**

- 4.1 The Audit Arrangement letter is issued by Council's Auditors, Audit NZ, each year and has two main purposes:
- 4.1.1 An agreement between Council and the Audit Team on responsibilities and work to be undertaken during the Audit. This agreement needs to be signed by the Mayor; and
  - 4.1.2 Details of the Audit, such as; business risks/issues and the audit response, areas of interest for all local authorities, logistics, (Audit Team, timing, and fees, etc), and any other information about the audit.
- 4.2 The attached Audit Engagement Letter is in draft form, with the final to be sent to the Subcommittee once received from Audit New Zealand.
- 4.3 The only alterations to the draft letter will be the timeframes of the Audit team being on-site, and the completion date of the Audit, which is now targeted to be in time for final sign-off by Council prior to 30 September 2013.

### **5 Policy / Legal Requirements / Plan**

- 5.1 Section 99 of the Local Government Act 2002 mandates that all local authorities must have their annual report, and summary annual report audited by the Office of the Auditor General.

### **6 Consideration of Financial or Budgetary Implications**

- 6.1 The proposed fee for the audit of Council's Annual Report is \$103,251, and for the Debenture Trust \$1,500.

### **7 Significance**

- 7.1 It is a statutory requirement for Council to complete an Annual Report and have it audited by the Office of the Auditor General. Non-compliance would result in notification to Parliament.

### **8 Consultation**

- Section 98 of Local Government Act 2002 requires Council, that upon adoption of the final Annual Report and Summary Annual Report, to make them available to the public, and specifically forward copies to;
  - (a) the Secretary; and
  - (b) the Auditor-General; and
  - (c) the Parliamentary Library

**9 Appendices**

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[date]

Richard Kempthorne  
Mayor  
Tasman District Council  
Private Bag 4  
Richmond 7050

cc Glenys Glover, Chair – Audit Committee  
Lindsay McKenzie, Chief Executive  
Murray Staite, Corporate Services Manager

Dear Richard

### **Audit for the year ending 30 June 2013**

I am writing to outline our arrangements for the audit of Tasman District Council for the year ending 30 June 2013. This letter also covers the audits of Tasman District Council's Debenture Trust reporting certificate and the Mayoral Relief Fund Tasman/Nelson (formerly the Richmond pool Charitable Trust).

This letter has two main sections – an agreement for you to sign, and details of the audit.

### **Agreement to be signed**

On the next page is an agreement for you to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return one copy of the agreement, along with a copy of the details of the audit, by 22 March 2013.

**Details of the audit**

Here we set out the proposed arrangements for this year's audit. This includes:

- business risks/issues and our audit response;
- areas of interest for all Local Authorities;
- logistics (such as our audit team, timing, and fees); and
- additional information about the audit (appendix 1).

Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely

Bede Kearney  
Director

**Agreement to be signed**

*I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.*

*Signed* \_\_\_\_\_ *Date* \_\_\_\_\_

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*Richard Kempthorne*  
Mayor

DRAFT

**Details of the audit**

**1 Introduction**

This document sets out the arrangements for the audit of Tasman District Council (the District Council)'s for the year ending 30 June 2013. This includes:

- The District Council's business risks/issues and our audit response;
- areas of audit interest across all local authorities;
- our approach to the audit of the District Council's information systems; and
- logistics (such as our audit team, timing, and fees).

**2 Your business risks/issues and our audit response**

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main business risks and issues facing the District Council. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of performance, authority, waste, and probity (as set out in the Audit Engagement Letter).

The table below sets out the business risks and issues that we have identified in line with these requirements. The left-hand column describes these risks and issues. In the right-hand column, we describe how we plan to respond to these during the audit.

Your business risk/issue	Our audit response
<b>Financial strategy/Council debt</b>	
The District Council's financial strategy carries significant risks due to the high and increasing debt levels. We understand that the District	We will continue to liaise with management and if appropriate the council, on the on-going review and any subsequent changes to the financial strategy.



Your business risk/issue	Our audit response
<p>Council is undertaking an on-going review of its financial strategy.</p>	<p>We will review The District Council's levels of debt at year end and the interest costs recognised during the year.</p> <p>We will also confirm the disclosure of debt between current and term liabilities and review any renegotiation of facilities with its lenders.</p> <p>We will review the impact of the District Council's participation in the Local Government Funding Agency (LGFA) scheme. We will confirm the District Council's equity contribution to join the scheme, and its disclosures relating to that investment and the joint guarantee associated with the scheme. We will also review the level of interest costs savings arising from the District Council's participation in the scheme.</p>
<p><b>Lee Valley Dam project</b></p>	
<p>A key issue consulted on by the District Council through its 2012-2022 Long Term Plan, was the proposal to build a dam in the Lee Valley that would be owned by a co-operative company. Under the proposal, the District Council would purchase shares in the company on behalf of residents and businesses to meet its share of water requirements for water supply and environmental flows.</p> <p>The District Council is undertaking further work on design, resource consents, land securement, and funding options.</p>	<p>We will continue to liaise with management on the progress of the project.</p>

Your business risk/issue	Our audit response
<b>Flooding events</b>	
<p>The rainfall and flooding events of December 2011, following a similar event in the previous year, have impacted on the District Council both operationally and financially. For its 2012 Annual Report, the District Council assessed the condition of all its assets affected by the flooding event and accounted for impairment or disposal where appropriate.</p> <p>At the end of the 2012 financial year, the District Council estimated the total cost relating to the flood event to be approximately \$10.1 million, and had received insurance claims relating to the 2010 flooding event. Claims for the 2011 event were still being negotiated.</p> <p>These rainfall events will continue to have an impact in 2012/13 and potentially beyond, as the costs to repair the damaged road will largely be incurred in the 2012/13 financial year.</p>	<p>We will review the accounting treatment of costs relating to the repair/reconstruction of the damaged assets and the status of the various insurance/reimbursement claims.</p> <p>Areas we will review include:</p> <ul style="list-style-type: none"> <li>• the classification of repair work between capital and maintenance;</li> <li>• the accounting treatment of any further insurance claims relating to the 2011 rainfall event; and</li> <li>• the appropriateness of any accrued insurance income if not all claims have been received by 30 June 2013.</li> </ul> <p>We will also consider whether the valuation of any damaged assets should be impaired.</p>
<b>Earthquake prone buildings</b>	
<p>Many organisations are currently undertaking detailed assessments of their building portfolios to determine the level of compliance with the current building code.</p> <p>Government is soon to release an updated earthquake building code.</p>	<p>We will continue to liaise with management over the District Council's assessments of its buildings and community housing stock and any decisions relating to non-compliant buildings.</p> <p>Some buildings significantly below code will need to be considered for impairment, as their carrying value may exceed the fair value of the building.</p>

Your business risk/issue	Our audit response
<b>Capitalisation of cost</b>	
<p>In the past two years' audits, we have noted some investigation, consultation, and design costs were incorrectly capitalised to various large capital projects.</p> <p>The costs are incurred as part of professional services contracts, however not all of these meet the criteria under relevant accounting standards and they should be expensed.</p> <p>The relevant standard that provides guidance in accounting for PPE is <i>NZ IAS 16 - Property, Plant and Equipment</i>.</p>	<p>We will enquire with management for any additional procedures or controls that the District Council may have put in place to ensure more accurate capitalisation of costs.</p> <p>We will also review costs capitalised during the year for appropriateness of their classification.</p>
<b>Property, plant and equipment</b>	
<p>The District Council periodically revalues its infrastructural assets. <i>NZ IAS 16, Property, Plant and Equipment</i>, requires that valuations are carried out with enough regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>Under the District Council's accounting policies, its <i>Roading and Land and Buildings</i> asset classes need to be revalued as at 30 June 2013.</p> <p>For its other asset classes, it needs to formally review whether a revaluation is needed this year. It is important that you make this assessment at an early stage, to avoid the risk of this becoming a significant issue at a late stage of the audit.</p>	<p>We will review the valuations for inclusion in the financial statements and</p> <p>The District Council's assessment of whether there is any significant difference between the carrying amount and fair value of its infrastructural assets for those assets not revalued.</p>

We will also follow up on progress made by the District Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

### **3 Our areas of interest for all Local Authorities**

#### **3.1 Changes to Local Authorities' Legislative Environment**

Local Authorities have been and are continuing to be impacted by changes to the Local Government Act 2002. The changes partly reflect the result of implementing the Transparency, Accountability and Financial Management (TAFM) recommendations and, more recently, implementing the Better Local Government reforms. As part of the audit, we plan to discuss with the District Council, its proposed response to the following key changes.

##### **3.1.1 Local Government Act 2002 Amendment Act 2012 (the Amendment Act)**

The Amendment Act, which is Phase 1 of the government's "Better Local Government" reforms, was passed in December 2012. The Amendment Act provides for:

- a new purpose statement;
- new financial prudence requirements;
- changes to the way councils are governed; and
- changes to the process for reorganising local government.

We will discuss with the District Council the impact of, and its response to, the 2012 Amendment Act. We will enquire about the extent to which the District Council has considered its current range of activities in the context of the new purpose statement and any issues arising from that. We will also discuss the implications of the other legislative changes and any initiatives or proposed responses arising from these changes.

Phase 2 of the government's reforms will impact Part 6 (Planning, decision making and accountability) of the Act and may have a significant impact on aspects of the District Council's reporting obligations or our future audits. During our 2012/13 audit we will monitor progress of these proposed legislative changes and discuss any significant matters with the District Council as they arise.

### 3.1.2 Changes to the annual report

As a result of the TAFM changes and the Better Local Government phase one amendment in 2012, there are a number of changes to the disclosure requirements included in schedule 10 of the Local Government Act. The District Council should understand the extent of these legislative changes and identify practical implementation approaches prior to the preparation of the annual report. The most significant disclosure changes are:

- Clauses 26 and 30 require audited funding impact statements for each group of activities and for whole of council respectively. These must be in the prescribed format. This is discussed further below under paragraph 3.1.3.
- Clause 24 requires an audited statement comparing capital expenditure budgeted by the District Council with the amount spent classified as being to:
  - meet additional demand;
  - improve levels of service; and
  - replace existing assets.
- Clause 27 requires for each group of activities, a statement of the amount of:
  - internal borrowing used for the purpose of the group of activity;
  - funds borrowed and repaid during the year; and
  - interest paid in relation to internal borrowing.

- Clause 31 requires the annual report to identify each reserve fund set aside by the local authority, and for each fund specify the:
  - purpose of the fund;
  - activities to which the fund relates;
  - amount in the fund at the beginning of the financial year;
  - total amount deposited to the fund; and
  - total amount withdrawn from the fund.
- Clause 32A requires the annual report to state the number of:
  - full time employees;
  - full time equivalent of all other employees;
  - employees receiving annual remuneration of less than \$60,000; and
  - employees receiving annual remuneration of \$60,000 or more, expressed in bands of \$20,000.

### 3.1.3 Funding Impact Statements (FIS)

This will be the first year the District Council reports its actual financial performance in the FIS formats specified in forms 4 and 5 in the Schedule to the Local Government (Financial Reporting) Regulations 2011 (the Regulations). When preparing the FIS statements, and in particular the comparative information, you should be aware of two particular matters:

- **Reporting against different plans**

The Regulations provide for different sources of comparative financial forecast (budget) information in the group of activities (GOA) FIS (form 4) and the whole of council FIS (form 5).

Both FISs are required to include the current year and the previous year's budgets as comparative information. The whole of council FIS also requires the previous year's actual financial information as a comparative.

The key difference between the two FISs is that the GOA FIS reports against the LTP, whereas the whole of council FIS reports against the annual plan.

However, given the approach to transition issues outlined below, in the 2012/13 year, the budget comparatives should all be able to be sourced from the 2012–22 LTP.

- **Sources of 2011/12 comparative information for 2012/13 annual report**

As noted above, 2012/13 is the first year in which FIS statements have been required in the District Council's external accountability documents (LTP and annual report). Therefore some comparative information may not be available as anticipated in the Regulations. We believe that for the 2012/13 annual report, the most appropriate sources of this comparative information will be, noting that the naming conventions in square brackets are those per the Regulations:

- **Groups of Activity FIS (GOA) (Form 4)**

- **[Year 1 LTP]**

- Source this directly from the 2012/13 LTP.

- **[Year -1 LTP]**

- While the 2009–19 LTCCP did not incorporate a FIS, the 2012–22 LTP was required (Form 1) to include 2011/12 budget comparatives.

- The most pragmatic approach for this year seems to be to use the 2011/12 budget comparatives, which were incorporated in the 2012–22 LTP.

- o **Whole of council FIS (Form 5)**
  - **[Year 1 Annual Plan]**  
Source this directly from the 2012/13 LTP;
  - **[Year -1 Annual Plan]**  
While the 2011/12 Annual Plan did not incorporate a FIS, the 2011/12 LTP was required (Form 2) to include 2011/12 budget comparatives.  
  
The most pragmatic approach for this year seems to be to use the 2011/12 budget comparatives, which were incorporated in the 2012-22 LTP.
  - **[Year -1 Annual Report]**  
As the 2011/12 Annual Report did not have a FIS, the 2011/12 actual comparative information is not available.  
  
The District Council will have to specifically prepare this information from its 2011/12 financial records.

Our overall approach to the FIS statements will be to confirm that the format and presentation comply with the Regulations and that the financial information, including the comparative information prepared specifically for 2012/13 annual reporting purposes, has been appropriately compiled. We will also confirm that, where appropriate, any significant issues and variances arising from this financial information are appropriately disclosed and explained in the annual report

### 3.2 Other areas of interest for all Local Authorities

As well as the risks and issues noted above, there are also a number of concerns common to the Local Authorities sector. The table below outlines our areas of interest for this year's audit. The left column



describes each matter and why we are interested in it. In the right column, we describe how we plan to address each matter during the audit.

Areas of Interest	Our audit response
<b>Performance against forecast in plans</b>	
<b>At the groups of activity (GOA) level</b>	
<p>As noted in 3.1.3 above, at the GOA level, the District Council's annual report will report its 2012/13 financial performance against year one of the 2012-22 LTP and the 2011/12 budget comparative figures from the 2012-22 LTP.</p> <p>The District Council's annual report will identify and explain any significant financial and service performance variances from those planned. While the FIS incorporates two years' comparative budget information, we expect the primary focus of variance explanations at the GOA level will be against the 2012-22 LTP figures.</p>	<p>We will consider the extent to which the District Council's activities are on track against the 2012-22 LTP. We will assess the reasonableness and completeness of the variance analysis and explanations in the annual report.</p>

Areas of Interest	Our audit response
<b>At the whole of council level</b>	
<p>As noted in 3.1.3 above, at the whole of council level, the District Council's annual report will compare its 2012/13 financial and service performance against the 2012/13 annual plan (year one of the 2012-22 LTP) and the 2011/12 annual plan.</p> <p>The District Council's annual report will identify and explain any significant financial and service performance variances from those planned. While the FIS Incorporates two years' comparative budget information and the prior year's actuals, we expect the primary focus of variance explanations at the whole of council level will be against the 2012-22 LTP and to a lesser extent the 2011/12 budget and actual results.</p>	<p>We will consider the extent to which, overall, the District Council is on track against the 2012-22 LTP. We will assess the reasonableness and completeness of the high level variance analysis and explanations in the annual report.</p> <p>We will also consider the implications and impact, of any significant variations from the LTP's planned performance, on the financial strategy.</p>
<b>Elections</b>	
<p>With the election in October, the District Council needs to monitor the content of the annual report and summary annual report (as well as any other publications issued by Council) to ensure it cannot be seen as electioneering.</p> <p>We encourage the District Council to consider how it will manage the need to maintain ordinary business and continue to carry out its statutory responsibilities, while ensuring that its resources are not used, or perceived as being used, to give electoral advantage.</p>	<p>We will discuss how the District Council plans to manage the risks associated with the election. We will also review annual and summary reports to ensure they are appropriate if issued prior to the election.</p>

Areas of Interest	Our audit response
<b>Asset Management Plans (AMPS)</b>	
<p>Asset Management Plans (AMPs) play an integral part in the maintenance of the District Council's significant infrastructure assets. These assets deliver most of the quality-of-life services that are critical to the community.</p> <p>During the last LTP audit we reviewed the AMPs and provided feedback on these.</p> <p>The District Council needs to ensure that the timetables outlined in the Improvement plan are aligned to the 2015-2025 LTP timetable.</p>	<p>We will assess and review the District Council's progress in relation to the development and maintenance of its AMPs in line with the Improvement plans.</p>
<b>Shared services</b>	
<p>Local authorities are continually exploring opportunities for delivering enhanced and more efficient services. Among the range of options increasingly discussed are shared services, often with other local authorities.</p> <p>Please advise us of any such arrangements the District Council is considering, in addition to updating us on those already in place with Nelson City Council.</p>	<p>We will discuss with the District Council any concrete proposals for shared services and any other alternative forms of service delivery. Our objective will be to gain an understanding of the proposals and their potential impact on the organisation and its services and activities.</p>
<b>Insurance</b>	
<p>Following the Christchurch earthquakes, the availability and cost of insurance has become problematic for some Councils.</p>	<p>We will enquire as to the extent of insurance cover the District Council has in place and assess any risks resulting from reduced cover.</p> <p>We will also enquire as to the impact of any increases in costs.</p>

Areas of interest	Our audit response
<b>Weathertightness</b>	
<p>Exposure to liabilities from leaky home claims remains a significant issue for the local government sector. While solutions are being sought at a political level to limit or cap the extent of individual party's liability, at this stage there is nothing concrete in place.</p>	<p>We will consider the information obtained by the District Council to determine its financial exposure to weathertightness claims. We will consider the adequacy and appropriateness of the accounting treatment and related disclosures in the financial statements.</p>
<p>The government has established a financial assistance package (FAP) to help homeowners repair their leaky homes faster. The FAP will see the Government meet 25% of homeowners' agreed repair costs and Local Authorities contributing 25%. The option exists for Local Authorities to opt into the scheme.</p> <p>In October 2012 the Supreme Court of New Zealand ruled that councils owed a duty of care to both residential and commercial property owners. Prior to this decision the duty of care was not thought to extend to commercial properties.</p> <p>If there are any claims against council these should be provided for. It is possible that the District Council may also need to include a contingent liability in relation to possible obligations arising in relation to commercial properties.</p>	<p>We will monitor the District Council's response to the FAP. If it has formally decided to opt into the FAP, we will consider the adequacy of the assessment of the financial impact of the decision, and ensure appropriate accounting treatment and disclosure of the decision.</p> <p>We will discuss this decision with the District Council and whether or not a provision or contingent liability should be included in the District Council's annual report.</p>

Areas of Interest	Our audit response
<b>Emissions Trading Scheme</b>	
<p>Councils which operate landfills have obligations to report their emissions and surrender New Zealand Units (NZUs) under the Emissions Trading Scheme (ETS). From 1 January 2012 landfill operators are required to report their greenhouse gas emissions. Units are required to be surrendered by 31 May 2014</p>	<p>We will liaise with the District Council to confirm that management are aware of this requirement and that they are measuring the gas emissions. The discussions will include whether unique or default emissions factors will be used.</p>
<p>Forestry entered the Emissions Trading Scheme (ETS) on 1 January 2008. The ETS classifies forests differently depending on whether they were first established after 1989 or before 1990. Owners of pre-1990 forest land are required to surrender New Zealand Units (NZUs) to the Crown if they deforest (change land use). They can apply for a one-off allocation of New Zealand Units (NZUs) to help offset the decrease in land value due to decreased land-use flexibility, or alternatively for small forest holdings (less than 50 hectares in total) can apply for an exemption from the ETS. Owners of post-1989 forests can choose to enter the ETS. They will then earn NZUs as their forests grow (backdated to 1 January 2008) and have obligations to surrender NZUs at harvest. Post-1989 forest owners do not receive free NZUs as part of the forestry allocation.</p>	<p>We will review the District Council's assessment of which category applies to the District Council's forests and the decisions the District Council has made in relation to each forest type.</p> <p>We will confirm whether any NZUs received, or that need to be surrendered, to the Crown are appropriately accounted for, that forest crop and forest land valuations reflect the ETS, and appropriate disclosures are made.</p>

Areas of Interest	Our audit response
<b>Development contributions</b>	
<p>Development contributions (and financial contributions, which are levied under the Resource Management Act) are an important funding tool for many local authorities. Development contributions can be contentious and there is a significant risk that developers may challenge a Council's compliance with legal requirements.</p> <p>The District Council, following discussions with industry stakeholders, has recently revised its method of collecting development contributions.</p> <p>The District Council may face the risk of needing to repay contributions if developments do not proceed. To manage this, it needs to maintain adequate records.</p>	<p>As part of the audit we will review the District Council's controls to ensure all development contributions are charged in accordance with the policy.</p> <p>We will confirm whether the District Council has maintained appropriate records and whether the use and application of funds received is appropriate and has been correctly accounted for.</p>
<b>Possible LTP amendments</b>	
<p>Every proposed LTP amendment must be audited. An amendment arises where a Council proposes:</p> <ul style="list-style-type: none"> <li>• a significant change to services levels [section 97 (1)(a)] or</li> <li>• to transfer ownership of a strategic asset [section 97(1)(b)] , or</li> <li>• a significant change to the revenue and financing policy [section 103(4)].</li> </ul>	<p>We will remain alert for possible amendments throughout the year. We will maintain contact with management and discuss potential amendments as they arise.</p> <p>We will also plan to review the District Council's 2013/14 annual plan, to ensure we understand the nature and extent of any changes being proposed.</p> <p>As part of this review we will assess the annual plan's compliance with legislative requirements.</p>

Areas of Interest	Our audit response
<b>Council's governance role in completion of Statements of Intent (SOIs) for Council Controlled Organisation (CCO)</b>	
<p>CCOs are responsible for meeting the accountability requirements of the Local Government Act 2002 (LGA), including preparing SOIs with appropriate involvement from their parent Local Authorities.</p> <p>Local Authorities are responsible for the effective oversight of their CCOs. This includes reviewing and commenting on draft SOIs of their CCOs within the timeframe in the LGA and ongoing monitoring of performance.</p>	<p>We will consider whether the District Council has appropriate arrangements in place for effectively fulfilling its oversight responsibilities relating to CCOs.</p> <p>We will also establish whether statutory timeframes for preparing 2013/14 SOIs have been met for all CCOs.</p>
<b>Sensitive expenditure</b>	
<p>In February 2007 the OAG published: Controlling sensitive expenditure; Guidelines for public entities (the Sensitive Expenditure Guidelines). We expect the District Council to have reviewed its policies against this guideline.</p> <p>We will review the District Council's relevant sensitive expenditure policies and the processes it has in place to support these.</p>	<p>We will follow up the recommendations made in our 2011/12 audit, including:</p> <ul style="list-style-type: none"> <li>• the travel policy should include guidance on taking annual leave, staying away over weekends, stopovers and travelling with spouses.</li> <li>• the travel policy should include wording around specific amounts of meal allowances, classes of flights and types of accommodation allowed to ensure they are reasonable.</li> <li>• Policies should state that they apply to both Councillors and staff.</li> </ul>

Areas of interest	Our audit response
<b>Severance payments</b>	
<p>The Auditor-General's 2002 report <i>Severance Payments in the Public Sector</i> is the point of reference for severance payments. This report discusses the risks facing public sector employers when they make voluntary payments to employees (especially at the end of the employment relationship) and suggests a principled approach to employment settlements, aimed at reducing those risks.</p> <p>Clause 33 of schedule 10 to the Local Government Act 2002 requires certain disclosures in relation to severance payments.</p>	<p>We will examine any severance payments made to employees as part of exit settlements – especially when senior ex-staff are the recipients – to ensure a principled approach as been followed in reaching settlement.</p> <p>Our focus will be on settlements which could be seen to be, excessive or unusual. For example, this would include settlements which include a large tax-free payment or provide a guaranteed contract role for the departing employee. We will also examine any payments significantly in excess of contractual entitlements.</p> <p>We will confirm the accuracy and completeness of any disclosures.</p>



Areas of Interest	Our audit response
<b>Conflicts of interest</b>	
<p>Conflicts of interest are an area of concern from two perspectives; probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks. During 2007 the OAG published two sets of guidance for entities in this area.</p> <p><i>Managing conflicts of interest: guidance for public entities</i>, explains how to understand conflicts of interest in the public sector, and how to identify, disclose, and manage them. It also considers both the legal and ethical dimensions of conflicts of interest.</p> <p><i>Guidance for members of local authorities about the law on conflicts of interest</i> provides more specific guidance for councillors. This is an updated version of previously published guidance about the legal requirements that apply to council members in formal decision-making at meetings of their authority.</p> <p>The Local Government (Members' Interests) Act 1968 controls the making of contracts between councillors and the District Council and prevents councillors from participating in Council matters in which they have a pecuniary interest.</p>	<p>It is primarily the responsibility of the Councillors and management to identify and manage their conflicts of interest.</p> <p>In the course of our usual audit work we will review the District Council's processes and will remain alert for any conflicts of interest.</p> <p>However, it is important that the District Council supports councillors to identify and manage compliance with the Local Government (Members' Interests) Act 1968.</p>

Areas of Interest	Our audit response
<b>Treaty settlements and co-management</b>	
<p>The Government aims to settle all historical Treaty of Waitangi claims by 2014. One part of cultural redress provided by the Crown to claimant groups is the establishment of future relationships and arrangements ("co-management") with government agencies, such as local authorities, that play significant roles in the areas with which the claimant group has traditional and cultural associations.</p>	<p>We are monitoring these types of arrangements and the implications across all Local Authorities.</p> <p>We ask you to advise us if you become aware of new settlements or co-management arrangements that may impact on the District Council.</p>
<b>Funding arrangements and procurement and contract management</b>	
<p>The Auditor-General continues to have general concerns about funding arrangements and procurement throughout the public sector and in 2008 issued two reports.</p> <p>The reports, published in June 2008 and available on the OAG website are:</p> <ul style="list-style-type: none"> <li>• <i>Public sector purchases, grants, and gifts: Managing funding arrangements with external parties; and</i></li> <li>• <i>Procurement guidance for public entities.</i></li> </ul> <p>Contract management is an important component of procurement. Contract management includes the effective management and monitoring of the delivery of goods or services to the agreed levels.</p> <p>The District Council is still in the process of developing a formalised procurement strategy and contract management system to ensure that value-for-money and cost efficiencies within procurement are maximised.</p>	<p>We will follow up on the District Council's progress on developing a formalised procurement strategy and contract management system.</p>

Areas of Interest	Our audit response
<b>Elected members – remuneration and allowance</b>	
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p> <p>The District Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period.<sup>1</sup> A council must disclose the amounts disclosed must include all remuneration paid or payable to each member from both the local authority and any council organisation of the District Council.</p>	<p>We will assess the District Council's compliance with the requirement to disclose the remuneration of each member in the annual report. We will confirm the amounts paid to the Local Government Elected Members Determination and any amendment to that Determination.</p>
<b>Risk management</b>	
<p>Sound risk management processes help to minimise the impact of risks on the organisation.</p> <p>Where the District Council has not identified risks, or has not put in place specific processes for managing these risks, the organisation remains exposed to the full impact of the particular risk.</p>	<p>In 2011/12, the District Council developed a risk register and was moving onto developing a risk policy and processes for monitoring and reporting on the District Council's corporate risks</p> <p>We will review the risk register, policy and implement processes, and provide any recommendation we have in our management letter</p>

<sup>1</sup> Schedule 10, clause 18, Local Government Act 2002

Areas of Interest	Our audit response
<b>Public Private Partnerships</b>	
Public Private Partnerships (PPPs) are used to procure public infrastructure when they represent good value for money and are in the public interest. Projects should only proceed as a PPP if this provides better value compared with what the same project could achieve under a more traditional procurement method.	We will discuss with the District Council if any PPPs have been entered into or if the District Council intends to enter into any PPPs.
<b>Annual Report Adoption and Public Release Dates Return</b>	
The Annual Report and Summary Annual Report are required to be adopted in accordance with the timeline set out in the LGA. The Office of the Auditor-General (OAG) will monitor the Annual Report adoption and public release dates.	We will note the dates that the District Council adopts its annual report, and makes the full and summary annual reports available to the public.  This information will be forwarded to the OAG.
<b>Local Authority exemptions for Council Controlled Organisations (CCOs)</b>	
Under section 7 of the LGA, a Local Authority may exempt a "small" CCO from the accountability regime that applies to CCOs under that Act.	We will advise the OAG on the District Council's use of Section 7 of the Local Government Act 2002 to exempt, or renew any exemptions, for any CCOs since 1 July 2012.

### 3.3 Changes to accounting standards

The accounting standard setters have decided to adopt a multi standards approach that also uses tiers to better balance the costs and benefits of financial reporting. Therefore, public sector public benefit entities (PBEs) will be required to transition to a new public sector PBE accounting standards framework in the future.

The current proposal is for PBEs to transition to the PBE standards for reporting periods beginning on or after 1 July 2014 with early adoption not permitted. This means the District/Regional Council's

first financial statements under the new framework would be for the year ending 30 June 2015. The standards are currently under development and exposure drafts have been issued for comment.

The PBE reporting tiers are outlined in the table below:

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Tier	Tier criteria	Reporting standards to apply
1	Expenses > \$30m or public accountability	PBE Standards
2	Expenses > \$2m and ≤ \$30m and non-publicly accountable <i>An entity can elect to report as a tier 2 entity if it meets the tier 2 criteria.</i>	PBE Standards Reduced Disclosure Regime
3	Expenses ≤ \$2m which are not in tier 4 and non-publicly accountable <i>An entity can elect to report as a tier 2 or 3 entity if it meets the tier 3 criteria.</i>	PBE Simple Format Reporting – Accrual
4	All entities permitted by law to use cash accounting <i>An entity can elect to report as a tier 2, 3, or 4 entity if it meets the tier 4 criteria.</i>	PBE Simple Format Reporting – Cash

It is expected that entities will need to prepare an opening statement of financial position using the new standards at the beginning of the earliest reporting period presented and restate comparative information for any adjustments arising on transition to the new standards. This means for the first financial statements prepared under the new PBE standards, the opening balance sheet is prepared as at 1 July 2013.

It is generally expected that the transition to the new standards will be less complex compared to the transition to NZ IFRS. For many entities, there will be few or no recognition and measurement differences arising from the transition. However, for some entities there will be material issues to consider.

The District Council will need to familiarise itself with the new PBE standards and appropriately plan for the transition to ensure a smooth audit of the first financial statements prepared under the new

public sector PBE framework. We will discuss the transition further with the District Council] during the course of the audit.

**4 IS systems**

The design and operation of an effective IS control environment is critical to ensuring the accuracy, integrity and availability of the District Council's information. Effective risk management procedures can prevent or mitigate risks in respect of this information.

Your business risk/Issue	Our audit response
<b>Information technology</b>	
<p>The District Council is dependent on its IT systems. The reliability of the IT systems, technology platforms, and associated controls is critical to maintaining the integrity of the District Council's data and ensuring continuity of services to its customers.</p> <p>The integrity of the IT systems supports the timely reporting of a quality Annual Report.</p>	<p>We will be completing a review of the District Council's IT General Controls (ITGC), which will include:</p> <ul style="list-style-type: none"> <li>• security (network and applications);</li> <li>• Business Continuity and IT Disaster recovery;</li> <li>• change management;</li> <li>• operations, problems and incident management</li> </ul> <p>We will also maintain an awareness of any planned or implemented initiatives and the impact these may have on the District Council's processes and control environment. We will assess any impact such initiatives will have on our audit approach and requirements.</p>

**5 Logistics**

**5.1 Our audit team**

The Audit New Zealand staff involved in the audit are:

Bede Kearney  
Ruth Farrell  
Gemma Shea  
Alan Clifford  
Jason Biggins

Director  
Audit Manager  
Audit Supervisor  
Information Systems Auditor  
Tax Director

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## 5.2 Important dates in the audit process

Our proposed timetable is:

	Date
Draft annual plan available for review	To be agreed
Audit comments (if any) on draft annual plan	To be agreed
Interim audit begins	29 April 2013
Draft interim management report issued	17 May 2013
Draft financial statements and performance information available for audit <sup>2</sup>	16 September 2013
Final audit begins	16 September 2013
Final financial statements available <sup>3</sup> for audit	30 September 2013
Report to trustees of Debenture trust Deed available for audit	To be agreed
Verbal audit clearance given	To be agreed
Annual report <sup>4</sup> available for audit	To be agreed
Audit opinion issued	To be agreed
Audit report issued on report to trustees of Debenture Trust Deed	To be agreed
Draft final detailed management report issued	To be agreed

## 5.3 Our interim audit visit

We will carry out the interim audit during April 2013. During this visit, we will focus on updating our understanding of the District Council's internal control. This includes reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. We will use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit.

<sup>2</sup> Financial statements (including notes to the financial statements) with actual year-end figures.

<sup>3</sup> Financial statements incorporating all the amendments agreed to between District Council and Audit New Zealand.

<sup>4</sup> Annual report, including any Chair's and Chief Executive's overview or reports.

#### 5.4 Our final audit visit

Our final audit is scheduled to start on 16 September and is expected to last three weeks onsite. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

#### 5.5 Professional fees

Our proposed audit fees for the year ending 30 June 2013 are as follows:

- The District Council – \$103,251 plus disbursements (GST exclusive).
- The Debenture Trust reporting certificate – \$1,500 (GST exclusive).
- Mayoral Relief Fund Tasman/Nelson – \$2,340. This assumes that there are no transactions in 12/13.

The District Council's fee assumes that the expectations discussed in Appendix 1 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

We propose to bill as follows:

	<b>Amount</b>
April 2013	\$15,000
May 2013	\$25,000
September 2013	\$40,000
October 2013	<u>\$23,251</u>
	<u>\$103,251</u>

We will bill the other subsidiary audits on completion.

To ensure we can complete the audit within the proposed time frame (see section 4.2) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely

basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you.

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## **Appendix 1: Additional information about the audit**

### **Our reporting protocols**

#### **Management reports**

We will provide a draft of all management reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the District Council.

#### **Reporting of misstatements**

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the District Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the District Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the District Council's governing body that specify the reasons why the corrections will not be made.

#### **Our expectations of you to enable an efficient audit**

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the District Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;

- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the District Council's website.

### **How we consider your compliance with statutory authority**

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the District Council's financial statements or general accountability. Our audit does not cover all of the District Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.