



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

Audit Subcommittee

LATE ITEMS AGENDA

LATE ITEMS

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7 REPORTS

7.3 AUDIT ENGAGEMENT LETTER - UPDATE

Decision Required

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

1 Summary

- 1.1 The Audit Proposal, Engagement Letter and Audit Agreement were not received from the Office of the Auditor General in time for inclusion in the Committee papers.
- 1.2 They have now been provided to allow informed discussions on the 2012/13 Annual Report Audit and related costs.
- 1.3 Attached to this report is:
 - 1.3.1 Audit Proposal – new
 - 1.3.2 Audit Engagement Letter – new
 - 1.3.3 Audit Agreement – updated

2 Draft Resolution

That the Audit Subcommittee receives the Audit Engagement Letter - Update Report RFN13-04-17.

3 Appendices

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| 3. | Audit Agreement - updated | 27 |

10 April 2013

Ref.: L043 and L048

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Mayor
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Copy: Director, Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington

cc Glenys Glover, Chair – Audit Committee
Lindsay McKenzie, Chief Executive
Mike Drummond, Corporate Services Manager



Dear Richard

Proposal to conduct the audit of Tasman District Council and subsidiaries on behalf of the Auditor-General for the 2013 financial year

1 Introduction

The Auditor-General has appointed me to carry out the audit of your organisation for the 2013 financial year. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the year ending 30 June 2013. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal and/or covered by separate proposals;
- 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 year ending 30 June 2013 and reasons for any change in costs;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conducting 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 your organisation 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 are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, the Council and I have the opportunity to 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.

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).

3 Entities covered by this proposal

This proposal covers the audits of the following entities:

- Tasman District Council; and
- Mayoral Relief Fund Tasman/Nelson

4 Key members of the audit team

Appointed Auditor	Bede Kearney
Audit Manager	Ruth Farrell
IS Specialist	Brian Breen
Tax specialist	Jason Biggins

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audits (compared to data from the previous financial year):

5.1 Tasman District Council (the District Council)

Audit team member	2012 budget	2012 actual	2013
Appointed Auditor	50	40	50
Review Director	10	9	-
Audit Manager	72	82	84
Other staff	370	495	430
Other specialists:			
Sector specialist support	10	10	10
Information Systems	40	12	12
Specialist Assurance Services	10	-	10
Tax	6	3	2
Total audit hours	568	651	598

5.1.1 Reasons for increased or decreased audit hours

The audit hours have increased, in comparison to the 2012 budgeted hours primarily because we have changed the mix of staff hours we propose to use on the audit. However, there will be additional time to audit the additional disclosures required by the Local Government Act 2002 Amendment Act 2012 (the Amendment Act). Given the District Council's overall financial position, its relatively high debt levels and the extent of its use of debt funding, we anticipate some additional time reviewing the District Council's overall financial position and the long term sustainability of its funding flows.

The proposed hours are lower than the actual hours spent on the 2012 audit as additional time was spent last year on the accounting issues resulting from the flooding events experienced by the Council.

5.2 Mayoral Relief Fund Tasman/Nelson

Audit team member	2012 budget	2012 actual	2013
Appointed Auditor	1	1	2
Audit Manager	2	6	3
Other staff		10	12
Total audit hours	7	17	17

5.2.1 Reasons for increased or decreased audit hours

The increase in hours from the 2012 budgeted hours is due to the Fund undertaking some transactions in 2012. While it is expected that there will be no transactions in 2013, work will have to be done confirming the comparative disclosures and confirming any balance sheet items as there are still funds held.

6 Proposed audit fees**6.1 Tasman District Council**

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

Structure of audit fees	2012 budget	2012 actual	2013
	\$	\$	\$
Net audit fee (excluding OAG overhead and disbursements)	89,440	89,440	94,873
OAG overhead charge	8,060	8,060	8,127
Total audit fee (excluding disbursements)	97,500	97,500	103,000
Disbursements	10,000	9,913	10,000

Total billable audit fees and charges	107,500	107,413	113,000
GST	13,474	16,112	16,950
Total (including GST)	120,974	123,525	129,950

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG overhead charge. We have also 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.

6.1.1 Reasons for increased audit fees

The main changes in cost components for future audits are:

Reasons for increased audit fees	2013 \$
Predicted staff salary cost movements	2,800
"New base" computation of audit hours	2,700
Total increase in audit fees	5,500

The main reasons for the increase in our proposed audit fees is an increase in our charge out rates, which reflects an increase in our underlying costs. There is an additional impact from the increase in hours required because of the additional reporting requirements under the Amendment Act and there is a further impact from the additional time in reviewing the Council's financial position and funding flows.

6.2 Mayoral Relief Fund Tasman/Nelson

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

Structure of audit fees	2012 budget \$	2012 actual \$	2013 \$
Net audit fee (excluding OAG overhead and disbursements)	1,500	1,500	2,399
OAG overhead charge	-	-	136
Total audit fee	1,500	1,500	2,535
GST	225	225	380
Total (including GST)	1,725	1,725	2,915

6.2.1 Reasons for increased audit fees

The 2012 audit fee was set on the basis that the Fund was dormant. The Fund had transactions during 2012 therefore additional work was required but we did not on-charge the additional cost incurred.

While it is expected that there will be no transactions in 2013, the proposed audit fee reflects the work that will have to be done confirming the comparative disclosures and confirming any balance sheet items as there are still funds held.

7 Assumptions relating to our audit fee

Our proposed audit fees are based on the following assumptions that:

- The District Council will provide to us in a timely manner the complete information required by us to conduct the audit.
- The District Council staff will provide us with an appropriate level of assistance.
- The District Council's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review before being submitted to us for audit.
- The District 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 framework¹ that require additional work.
- there are no significant changes to mandatory auditing standards that require additional work.²
- There are no significant changes to the agreed audit arrangements (set out in an annual letter we will send you) that change the scope of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, we will discuss the issues with you and the OAG at the time.

8 What the OAG overhead charge provides

Appointed Auditors are required to return to the OAG part of the fee paid by each public entity (the OAG overhead charge) to partially fund a range of work that supports auditors and entities, including:

¹ For clarity, the impact of any potential change from IFRS to IPSAS equivalent is excluded from this proposal.

² For clarity, proposed changes arising from the MED/ASRB's Review of Financial Reporting Framework are excluded from this proposal.

- 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
- quality assurance reviews of all auditors, and their audits and staff on a regular (three-year) cycle.

Parliament has indicated that it expects the full cost of annual audits under the Public Audit Act (including overhead charges) to be funded by public entities.

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 Chapter Four of the OAG Manual for Audit Service Providers.

10 Conclusion

As the Appointed Auditor, I am committed to providing the District Council 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 the District Council, 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 contract with the Auditor-General to carry out the audit of the District Council as the agent of the Auditor-General.

Yours sincerely



Bede Kearney
Director
Audit New Zealand

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

Full name:	Richard Kempthorne	Position:	Mayor
Authorised signature:	_____	Date:	_____
Entity name:	Tasman 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: Bede Kearney
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Christchurch

10 April 2013

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Richard Kempthorne
 Mayor
 Tasman District Council
 Private bag 4
 Richmond

cc Glenys Glover, Chair – Audit Committee
 Lindsay McKenzie, Chief Executive
 Mike Drummond, Corporate Services Manager

Dear Richard

Audit engagement letter

This audit engagement letter is sent to you on behalf of the Auditor-General, who is the auditor of Tasman District Council (the District Council) (under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Bede Kearney, using the staff and resources of Audit New Zealand, under section 32 and 33 of the Act, to carry out the annual audits of the District Council's financial statements and performance information. We will be carrying out the annual audit on the District Council, on Auditor-General's behalf, for the year ending 30 June 2013.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Appointed Auditor and the District Council for the annual audit.

The objectives of the annual audit are:

- to provide an independent opinion on the District Council's financial statements and performance information; and
- to report on other matters relevant to the District Council's financial and other management systems that come to our attention and are material (for example, compliance with statutory obligations or probity).

We will carry out the audit in accordance with the Auditing Standards issued by the Auditor-General, which incorporate the International Standards on Auditing (New Zealand). They require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the District Council's financial statements and performance information are free from material misstatements.

Carrying out the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Auditing Standards.

During the audit, we consider internal control relevant to the District Council's preparation of the financial statements and performance information, but not for the purpose of expressing an opinion on the effectiveness of the District Council's internal controls.

Please note that the audit does not relieve the District Council of its responsibilities. The Auditor-General expects elected members of the District Council to be familiar with those responsibilities and, where necessary, to have obtained advice about them.

However, we will communicate to you in writing any significant deficiencies in internal controls relevant to the audit of the financial statements and performance information that we have identified during the audit.

Your responsibilities

Our audit will be carried out on the basis that the District Council acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with financial reporting standards;
- such internal control as you determine is necessary to enable preparing financial statements and performance information that are] free from material misstatement, whether due to fraud or error; and
- providing us with:
 - access to all information of which the District Council is aware that is relevant to preparing the financial statements and performance information such as records, documentation, and other matters;
 - additional information that we may request from the District Council for the purpose of the audit;
 - unrestricted access to Council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

The Council's responsibilities extend to all resources, activities, and entities under its control. We expect that the Council will ensure:

- the resources, activities and entities under its control have been operating effectively and efficiently;
- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;
- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

The Council should have documented policies and procedures to support its general responsibilities. It should also regularly monitor performance against its objectives.

The Council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Appendix 1. We assume that members of the Council are familiar with those responsibilities and, where necessary, have obtained advice about them.

Our responsibilities

It is essential that the Appointed Auditor remain both economically and attitudinally independent of the District Council. This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity, and independence.

To protect the independence of the Appointed Auditor, specific limitations are placed on us in accepting engagements with the Council other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any such other engagements must be the subject of a separate written arrangement between the Council and the Appointed Auditor.

The Appointed Auditor must maintain an alertness and awareness for issues and risks of:

- effectiveness and efficiency – in particular, how the Council has carried out its activities;
- non-compliance with laws, regulations, and contractual requirements;
- waste – in particular, whether the Council obtained and applied its resources of the District Council in an economical manner and whether any resources are being wasted;
- a lack of probity – in particular, whether the Council met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- a lack of financial prudence.

Reporting

We will report the results of the annual audit in two documents – an audit report and a management letter.

The audit report will be attached to the financial statements and performance information. This report contains an opinion that provides readers with reasonable assurance on whether the financial statements and performance information are free from material misstatements and comply with financial reporting standards. It may also contain comment on matters such as compliance with statutory obligations and other matters that we consider may be of interest to the readers of the audit report.

The management letter will be sent to the Council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Council (for example, internal control weaknesses, probity matters, or compliance with statutory obligations). We may also provide other management letters to the District Council from time to time. We will inform the Council of any other management letters we have issued.

Next steps

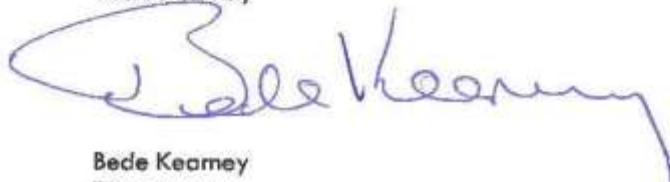
Please acknowledge receipt of this letter and the terms of the audit engagement by signing the enclosed copy of the letter in the space provided and returning it to me. The terms will remain effective until a new Audit Engagement Letter is issued.

Appendix 2 contains some additional “other” responsibilities for the audit.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible. If after contacting me you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours sincerely



Bede Kearney
Director

I acknowledge the terms of this engagement and that I have the required authority on behalf of the Council.

Signature:

Signed

Richard Kempthorne
Mayor

Date

Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor

Responsibilities of the Council	Responsibilities of the Appointed Auditor
Responsibilities for the financial statements and performance information	
<p>The Council is required by section 111 of the Local Government Act 2002 to prepare financial statements and, where appropriate, other accountability statements that comply with generally accepted accounting practice in New Zealand. The Council is also required to prepare performance information. These financial statements and performance information must fairly reflect the financial position of the District Council, the results of its operations and cash flows, and its service performance achievements.</p> <p>The Council must also ensure that any accompanying information in its annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>The Council is required, by section 98(1) of the Local Government Act 2002 to prepare an audited annual report containing the information required by Part 3 of Schedule 10 of that Act. Section 99 of the Local Government Act 2002 requires the annual report to be audited. In order to comply with section 98(3) of the Local Government Act 2002, the audited annual report must be adopted by the Council within 4 months after the end of the financial year. It is normal practice for the Council to set its own timetable to comply with statutory reporting deadlines.</p>	<p>We have responsibility to carry out an annual audit, on behalf of the Auditor-General, and to form an opinion on whether the District Council's financial statements and performance information comply with generally accepted accounting practice in New Zealand and fairly reflect the activities of the District Council.</p> <p>We will also read other accompanying information to the financial statements and performance information to identify whether there are material inconsistencies with the audited financial statements and performance information.</p> <p>An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance information. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements and performance information, whether due to fraud or error.</p> <p>In making those risk assessments, we will consider internal control relevant to the District Council's preparation of the financial statements and performance information to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District Council's internal control.</p> <p>An audit also involves evaluating the:</p> <ul style="list-style-type: none"> • appropriateness of accounting policies used and whether they have been consistently applied; • reasonableness of the significant accounting estimates and judgements made by those charged with governance; • appropriateness of the content and measures in any non-financial accountability statements;

Responsibilities of the Council	Responsibilities of the Appointed Auditor
	<ul style="list-style-type: none"> • adequacy of all disclosures in the financial statements and performance information; and • overall presentation of the financial statements and performance information. <p>We will ask those charged with governance for written confirmation of representations made to them about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> • the adoption of the going concern assumption is appropriate; • all material transactions have been recorded and are reflected in the financial statements and performance information; • all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed; and • uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>We will not examine every transaction, nor do we guarantee that the financial statements and performance information are completely accurate. Because of the test nature and other inherent limitations of the annual audit, together with the inherent limitations of any accounting and internal control systems, there is an unavoidable risk that some material misstatements may remain undiscovered.</p> <p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information.</p>

Responsibilities of the Council	Responsibilities of the Appointed Auditor
	<p>If we find material misstatements that are not corrected, we will refer to them in the audit opinion. The Auditor-General's preference is for those charged with governance to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p>
Responsibilities for the accounting records	
<p>The Council is responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> • correctly record and explain the transactions of the District Council; • enable the Council to monitor the resources, activities, and entities under its control; • enable the District Council's financial position to be determined with reasonable accuracy at any time; • enable the Council to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and • are in keeping with the requirements of the Commissioner of Inland Revenue. 	<p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p>
Responsibilities for accounting and internal control systems	
<p>The Council is responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the [council type]), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and, where applicable, non-financial reporting.</p>	<p>The annual audit is not designed to identify all significant weaknesses in the Council's accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information.</p> <p>We will report to those charged with governance separately any weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to those charged with governance. Any such report will provide constructive recommendations to assist those charged with governance and management to address those weaknesses.</p>

Responsibilities of the Council	Responsibilities of the Appointed Auditor
Responsibilities for preventing and detecting fraud and error	
<p>The responsibility for the prevention and detection of fraud and error rests with the Council through the implementation and continued operation of adequate Internal control systems (appropriate to the size of the District Council) supported by written policies and procedures.</p> <p>We expect the Council to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with.</p> <p>We expect the Council to consider reporting all instances of actual, suspected or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect the Council to immediately inform us of any suspected fraud, regardless of the amounts involved.</p>	<p>We design our audits to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> • assess the effectiveness of internal control systems and procedures for preventing and detecting fraud and error; and • report to the Council weaknesses in internal control systems and procedures for monitoring the prevention and detection of fraud and error that come to our notice and that we consider could be relevant to the Council. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected or alleged fraud.</p> <p>As part of the audit, the Council will be asked for written confirmation that it has disclosed all known instances of actual, suspected or alleged fraud to us.</p> <p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from those charged with governance, management, or by any other means, we will communicate this to the Council with the expectation that the Council will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency, although this will not limit the Auditor-General also considering whether it is appropriate for the purposes of protecting the interests of the public.</p>

Responsibilities of the Council	Responsibilities of the Appointed Auditor
Responsibilities for compliance with laws and regulations	
<p>The Council is responsible for ensuring that it has systems, policies, and procedures (appropriate to the size of the District Council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of the District Council are complied with. Such systems, policies, and procedures should be documented.</p>	<p>We will assess whether the Council has systems, policies, and procedures to ensure compliance with those legislative, regulatory, and contractual requirements that are relevant to the audit. We will either perform specific audit tests to assess whether the Council has complied with statutory requirements that are relevant to the audit or maintain an awareness for possible non-compliance with any other statutory requirements that may be relevant to the audit.</p> <p>The way in which we will report instances of non-compliance that come to our attention will depend on significance. We will report to the Council and to the Auditor-General all significant instances of non-compliance.</p> <p>We will also report to those charged with governance any weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws, regulations, and contractual requirements that we consider may be relevant.</p>
Responsibilities to establish and maintain appropriate standards of conduct and personal integrity	
<p>The Council should at all times take all practicable steps to ensure that its members and employees maintain high standards of conduct and personal integrity. The Council should document its expected standards of conduct and personal integrity in a "Code of Conduct" and, where applicable, support the "Code of Conduct" with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted "Codes of Conduct" that apply to the public sector.</p>	<p>We will have regard to whether the Council maintains high standards of conduct and personal integrity. Specifically, we will be alert for significant instances where Council members and employees of the District Council may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to the Council and to the Auditor-General all significant instances of departure from expected standards of conduct and personal integrity.</p> <p>The Auditor-General, on receiving a report from us, may, at her discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with those charged with governance.</p>

Responsibilities of the Council	Responsibilities of the Appointed Auditor
Responsibilities for conflicts of interest and related parties	
<p>The Council should have policies and procedures to ensure that its members and employees carry out their duties free from bias.</p> <p>The Council should maintain a full and complete record of related parties and their interests. It is the responsibility of the Council to record and disclose related-party transactions in the financial statements in accordance with generally accepted accounting practice.</p>	<p>To help determine whether members of the Council and employees have carried out their duties free from bias, we will review information provided by those charged with governance that identifies related parties and will be alert for other material related-party transactions. We will check that the Council has complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements.</p>
Responsibilities for publishing the audited financial statements on a website	
<p>The Council is responsible for the electronic presentation of the financial statements and performance information on the District Council's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If the Council intends to publish or reproduce the financial statements and performance information, together with the audit report, on a website, the Council must, before publication, provide us with a draft version of the documents to read and must obtain our approval to include the audit report.</p> <p>If the audit report is reproduced in any medium, the Council should present the complete financial statements, including notes and accounting policies as well as any other accountability statements.</p> <p>If the Council intends to post any new material not previously read by us, the Council must advise us before posting the new material.</p>	<p>We will perform procedures to satisfy ourselves that the information the Council intends including on its website is consistent with the audited financial statements and performance information and that the audit report will not be inappropriately associated with any information that has not been audited.</p> <p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on the District Council's website is beyond the scope of the annual audit.</p> <p>We will vary the audit report published on the website in accordance with the Auditor-General's instructions on the publication of financial statements and related audit reports on websites.</p> <p>We will review the material on initial posting and on notification from the Council that new material has been posted on the website. We do not carry out ongoing monitoring of the material on the Council's website.</p>

Appendix 2: Other responsibilities

To meet the reporting deadlines, we are dependent on receiving the District Council's financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information comply with generally accepted accounting practice and fairly reflect or give a true and fair view of the activities of the District Council and are supported by proper accounting records and complete evidential documentation.

We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.

The workpapers that we produce in carrying out the audit are the property of the Auditor-General. Workpapers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. You are, therefore, asked to clearly inform audit staff visiting your premises what you require of them to ensure health and safety requirements are satisfied, particularly of any requirement to wear safety equipment, emergency evacuation procedures, and requirements for reporting accidents and hazards.

Audit staff have been made aware of their responsibilities to report any hazards, accidents, or unsafe action to the health and safety representatives of both the District Council and Audit New Zealand.

10 April 2013

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Richard Kempthorne
Mayor
Tasman District Council
Private Bag 4
Richmond 7050

cc Glenys Glover, Chair – Audit Committee
Lindsay McKenzie, Chief Executive
Mike Drummond, 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 Keamey
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 _____
Richard Kempthorne
Mayor

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
Financial strategy/Council debt	
<p>The District Council's financial strategy carries significant risks due to the high and increasing debt levels.</p> <p>We understand that the District Council is undertaking an on-going review of its financial strategy.</p>	<p>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.</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.</p> <p>We will also review the level of interest costs savings arising from the District Council's participation in the scheme.</p>

Your business risk/issue	Our audit response
Lee Valley Dam project	
<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>
Flooding events	
<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.</p> <p>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"> • the classification of repair work between capital and maintenance; • the accounting treatment of any further insurance claims relating to the 2011 rainfall event; and • the appropriateness of any accrued insurance income if not all claims have been received by 30 June 2013. <p>We will also consider whether the valuation of any damaged assets should be impaired.</p>
Earthquake prone buildings	
<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
Capitalisation of cost	
<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 NZ IAS 16 – <i>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>
Property, plant and equipment	
<p>The District Council periodically revalues its infrastructural assets. NZ IAS 16, <i>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 Roading and Land and Buildings 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:

- o **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

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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
Performance against forecast in plans	
At the groups of activity (GOA) level	
<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>
At the whole of council level	
<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>

Areas of interest	Our audit response
Elections	
<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>
Asset Management Plans (AMPS)	
<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>
Shared services	
<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>
Insurance	
<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
Weathertightness	
<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>
Emissions Trading Scheme	
<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>

Areas of interest	Our audit response
<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.</p> <p>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.</p> <p>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>
Development contributions	
<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>

Areas of interest	Our audit response
Possible LTP amendments	
<p>Every proposed LTP amendment must be audited. An amendment arises where a Council proposes:</p> <ul style="list-style-type: none"> • a significant change to services levels [section 97 (1)(a)] or • to transfer ownership of a strategic asset [section 97(1)(b)] , or • a significant change to the revenue and financing policy [section 103(4)]. 	<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>
Council's governance role in completion of Statements of Intent (SOIs) for Council Controlled Organisation (CCO)	
<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>
Sensitive expenditure	
<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"> • the travel policy should include guidance on taking annual leave, staying away over weekends, stopovers and travelling with spouses. • 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. • Policies should state that they apply to both Councillors and staff.

Areas of Interest	Our audit response
Severance payments	
<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>
Conflicts of interest	
<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
Treaty settlements and co-management	
<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>
Funding arrangements and procurement and contract management	
<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"> • <i>Public sector purchases, grants, and gifts: Managing funding arrangements with external parties; and</i> • <i>Procurement guidance for public entities.</i> <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
Elected members – remuneration and allowance	
<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.¹ 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>
Risk management	
<p>Sound risk management processes help to minimise the impact of risks on the organisation. 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>
Public Private Partnerships	
<p>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.</p>	<p>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.</p>
Annual Report Adoption and Public Release Dates Return	
<p>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.</p>	<p>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.</p> <p>This information will be forwarded to the OAG.</p>

¹ Schedule 10, clause 18, Local Government Act 2002

Areas of interest	Our audit response
Local Authority exemptions for Council Controlled Organisations (CCOs)	
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
Information technology	
<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"> • security (network and applications); • Business Continuity and IT Disaster recovery; • change management;

Your business risk/issue	Our audit response
	<ul style="list-style-type: none"> • operations, problems and Incident management <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	Director
Ruth Farrell	Audit Manager
Gemma Shea	Audit Supervisor
Alan Clifford	Information Systems Auditor
Jason Biggins	Tax Director

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	10 June 2013
Draft interim management report issued	30 June 2013
Draft financial statements and performance information available for audit ²	2 September 2013
Final audit begins	9 September 2013
Final financial statements available ³ for audit	17 September 2013
Report to trustees of Debenture trust Deed available for audit	To be agreed
Verbal audit clearance given	19 September 2013
Annual report ⁴ available for audit	17 September 2013
Audit opinion issued	26 September 2013
Audit report issued on report to trustees of Debenture Trust Deed	To be agreed
Draft final detailed management report issued	11 October 2013

5.3 Our interim audit visit

We will carry out the interim audit during June 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.

5.4 Our final audit visit

Our final audit is scheduled to start on 9 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 – \$103,000 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.

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

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

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

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

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.