

Notice is given that an ordinary meeting of the Audit and Risk Committee will be held on:

**Date:** Thursday 21 March 2024  
**Time:** 9:30 am  
**Meeting Room:** Tasman Council Chamber  
**Venue:** 189 Queen Street, Richmond  
**Zoom conference link:** <https://us02web.zoom.us/j/88651198309?pwd=OFNUMWY4NStySHhiN0ZIRzkxZjNRZz09>  
**Meeting ID:** 886 5119 8309  
**Meeting Passcode:** 826793

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## Audit and Risk Committee

### Komiti Tatari me te Tuponotanga

# AGENDA

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#### MEMBERSHIP

**Chairperson** Mr G Naylor

**Councillors** Deputy Mayor S Bryant  
Councillor C Butler  
Councillor C Mackenzie  
Mr G McGlenn  
Councillor T Walker

(Quorum 3 members)

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## AGENDA

### 1 OPENING, WELCOME, KARAKIA

### 2 APOLOGIES AND LEAVE OF ABSENCE

An apology has been received from Councillor C Mackenzie.

#### Recommendation

**That an apology be accepted from Councillor C Mackenzie.**

### 3 DECLARATIONS OF INTEREST

### 4 LATE ITEMS

### 5 CONFIRMATION OF [MINUTES](#)

**That the minutes of the Audit and Risk Committee meeting held on Friday, 8 December 2023, be confirmed as a true and correct record of the meeting.**

**That the confidential minutes of the Audit and Risk Committee meeting held on Friday, 8 December 2023, be confirmed as a true and correct record of the meeting.**

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### 8 CLOSING KARAKIA

## 6 REPORTS

### 6.1 INSURANCE UPDATE

Information Only - No Decision Required

<b>Report To:</b>	Audit and Risk Committee
<b>Meeting Date:</b>	21 March 2024
<b>Report Author:</b>	Mike Drummond, Group Manager - Finance; Paul Egan, Senior Management Accountant
<b>Report Authorisers:</b>	Leonie Rae, Chief Executive Officer
<b>Report Number:</b>	RFNAU24-03-1

#### 1. Purpose of the Report / Te Take mō te Pūrongo

- 1.1 The purpose of this report is to provide the Committee with an update on the Insurance renewal programme and planned policy work.

#### 2. Summary / Te Tuhinga Whakarāpoto

- 2.1 This report provides some information about the Council's insurance cover and the collectives it participates in. The Council places its insurance cover through two local government collectives:
- 2.1.1 the Top of the South (TOS collective); and
- 2.1.2 the South Island Local Authority Shared Services Insurance Group (SI collective).
- 2.2 Traditionally the Finance Group has had responsibility for negotiating and placing the insurance cover. These placements rely on the expertise of the collective members and the brokers (Marsh and AON). We are proposing to change this approach moving forward as Insurance is only one aspect of our risk mitigation strategy. That will likely involve creating an internal **Insurance Management Steering Group (IMSG)** to develop an insurance strategy that dovetails into our risk management approach.
- 2.3 The Council currently has a transactional approach to procuring cover. There is some strategising at the collective level but largely we are a price taker in the market.
- 2.4 An **Insurable Assets – Insurance Evaluation & Decision Policy** is being developed to provide asset managers guidance in relation to whether an acquired or existing asset should be insured.
- 2.5 Elected members raise on a semi-regular basis that the Council should move to a self-insurance approach. There are several options and a **Self-Insurance Managed Investment fund** is being investigated. Such a fund would require seed funding this has not been included in the draft Long Term Plan (LTP).
- 2.6 The annual insurance placement will continue through the two collectives in accordance with the usual time frame having the TOS cover agreed and placed prior to 30 June 2024 and the SI collective by the 1 November 2024.

### 3. Recommendation/s / Ngā Tūtohunga

**That the Audit and Risk Committee receives the Insurance update report, RFNAU24-03-1;**

### 4. Background / Horopaki

- 4.1 The Council is a transactional buyer of insurance cover rather than a strategic buyer. The Council places its insurance cover through two local government collectives.
- 4.1.1 The **Top of the South** (TOS collective) Tasman District Council, Marlborough District Council and Nelson City Council. This collective uses Marsh as the broker/advisor. The cover year commences 30 June.
- 4.1.2 South Island Local Authority Shared Services Insurance Group also known as the **South Island Council Collective** (SICC). Buller District Council, Environment Southland, Grey District Council, Nelson City Council, Queensland Lakes District Council, Tasman District Council, West Coast Regional Council and Westland District Council. This collective use AON as the broker/advisor. The cover year commences 1 November and only covers infrastructural (underground) assets up to 40% of their declared value.
- 4.2 The Council also has a continuing legacy liability under the “Risk Pool” shared mutual cover arrangements until all claims are settled. The Council may receive further interim calls in relation to this legacy cover as the final claims are settled and each claims year is closed. The Council was invoiced \$108,000 in November 2023 for calls on Riskpool cover for the 2003/4, 2006/7, 2007/8, 2008/9 years. The quantum of future calls will depend on the outcome of the late claims notification to risk pool and issues in respect of outstanding mixed defect claims and the reinsurers’ position.
- 4.3 The focus of the collectives is to procure affordable insurance cover. As the cover has shared limits, a Memorandum of Understanding (MOU) is being progressed to record the arrangements around participation in the SICC collective and the allocation of claims proceeds in a catastrophic event where the collective cover limits are likely to be exceeded.
- 4.4 Traditionally the Finance Group has had responsibility for engaging with the collectives, negotiating, and placing the insurance cover. These placements rely on the collective expertise of the collective members and the brokers (Marsh and AON). We are proposing to change this approach moving forward as insurance is only one aspect of our risk mitigation strategy. That will likely involve creating an internal Insurance management steering group (IMSG) to develop an insurance strategy that dovetails into our risk management approach.
- 4.5 The Council does not currently have a policy framework in place for insurance. A policy framework would dovetail into our risk management framework and provide guidance to staff and the Council. It would also establish the level of risk the Council is prepared to take on.

#### Policy works underway

- 4.6 **Insurable Assets – Insurance Evaluation & Decision Policy** – This policy will be focused on providing asset managers guidance in relation to whether an acquired or existing asset should be insured. It would also provide asset managers with a high-level distinction between assets which should be commercially insured versus those which should be “insured” by other means such as self-insurance or any combination of the various available options. This policy would not cover non-asset related insurance such as:

- 4.6.1 Liability – all types;
  - 4.6.2 Personal Accident, Bodily Injury, Medical;
  - 4.6.3 Crime Manager;
  - 4.6.4 Cyber Risk; and
  - 4.6.5 Business interruption.
- 4.7 The proposed Insurable Assets – Insurance Evaluation & Decision Policy will also likely assign the responsibility for making the decision to insure or not to the relevant group manager in conjunction with the Assurance and Improvement Manager. That's rather than this being a Group Manager – Finance decision.
- 4.8 Elected members raise on a semi-regular basis that the Council should consider moving to a self-insurance approach. Overall self-insurance could take multiple forms. There are three commonly used methods of self-insurance and a scenario whereby the Council doesn't procure any insurance cover.
- 4.8.1 Status Quo (do nothing)
  - 4.8.2 Self-insurance fund / disaster recovery reserves
  - 4.8.3 Pure Captive (is creating an insurer as a wholly owned subsidiary business of the Council). The Council would not have the necessary scale of business for this approach.
- 4.9 The most likely approach in future recommendations is to create a **Self-Insurance Managed fund**. That approach is likely to need strong financial support by the Council investing in a self-insurance investment fund with a professional fund manager. Such a fund would require considerable seed funding c\$8-\$10 million. There is no provision for this seed funding in the draft 2024-34 LTP. The fund would be expected to grow over time through future premiums (less claims), investment returns and potentially further ongoing capital injections.
- 4.10 The Council would need to have and display a strong commitment to maintaining and increasing such a fund even in years when there was considerable pressure to reduce rates increases. Failure to maintain and increase such a fund would be a critical key risk to undertaking this approach to risk management.
- 4.11 Such a fund would be the subject of a separate paper to this committee at a future date, provided it was supported by the Insurance Management Steering Group.
- 4.12 The current issues are:
- 4.12.1 The increasing cost of insurance. For the 2018/19 year the premiums totalled \$1,317,000. The 2023/24 premiums totalled \$3,582,000 (AON \$870,000 Marsh \$2,712,000) and are forecast to increase to \$5,138,000 pa in the draft 2024-34 LTP.
  - 4.12.2 In the draft LTP for 2024/25 we assume a 11.6% increase and low 2-2.4% increases in subsequent years. Given current market conditions and pressures those assumptions will likely need to be reviewed upwards in the final 2024-34 LTP.
  - 4.12.3 We are seeing significant 20-25% increases in premiums year on year.

4.12.4 The factors impacting on insurance cover and costs are:

<b>Contributing Factors</b>	<b>Other Factors</b>
Low original base (2018/19 \$1,317,000)	Coverage reductions
Large Increases in Asset Values/replacement costs and increases in Revenue	Capacity constraints
Frequency of natural disasters.	

### Overview of Current Insurance Premiums 2023/24

<b>Type of Cover</b>	<b>Marsh</b>	<b>AON</b>	<b>Total</b>
Material Damage Residential/Commercial and Business Interruption	1,912,424		1,912,424
Infrastructure Renewal 40% Cover		869,778	869,778
Public & Professional Indemnity -	470,364		470,364
Forestry	199,680		199,680
Statutory, Employer, Environmental, Airport etc Liabilities	31,097		31,097
Other insurances	98,792		98,792
<b>Total Premiums</b>	<b>2,712,358</b>	<b>869,778</b>	<b>3,582,136</b>

- 4.13 Some councils in the TOS collective include in that collective insurance cover for some of their CCOs. This is them taking a group level approach akin to that taken by Auckland City Council. We have had requests from Waimea Water Ltd (WWL) in the past to include WWL in our insurance cover. The standalone nature including that it is a PPP has resulted in us declining to do that.
- 4.14 The increasing frequency of natural disasters and catastrophic climate change-related events and steeply rising asset values has seen a steady year-on-year increase in insurance premiums for assets. In addition, we have an increasing litigious environment resulting in more frequent and larger claims on the Council. That has impacted on the cost of public liability cover especially in relation to consenting activities.
- 4.15 Due to the external environment and increasing claims across the country, each time our insurance is renewed we are seeing more events being excluded or sub-limits being introduced.
- 4.16 Insurance policies are set and entered into to protect the Council and department budgets rather than to reflect the wider or collective consolidated position/balance sheet. As a result, the Council claims on more minor incidents that could be covered at the Council group level. Given that, the primary objective of insurance should be to protect against catastrophic losses that could significantly impair the Council's overall balance sheet.
- 4.17 Cyclone Gabrielle has under-scored where companies had a concentration of risk e.g. a concentration of risk where all company vehicles are housed at the same location e.g. for the Council (say) the Richmond offices. So, while the loss of an individual vehicle is manageable, the loss of most of the fleet is at a different scale. Some of our deductibles are based on a percentage of the site value. The site includes all adjacent properties e.g. for the Richmond office it includes the office and Armadillo's bar next door.
- 4.18 To support our insurance placement programme, we have been increasing the frequency and scope of our insurance valuations. These are typically done in conjunction with the financial valuations to reduce the overall cost. We continue to improve the timeliness and accuracy of our asset information. However, this requires further focus from some of the infrastructure managers.

- 4.19 In conjunction with Nelson City and Marlborough District Councils we have engaged Gallagher to undertake a combined loss modelling exercise based on earthquake risk. This modelling will inform the Material Damage cover level and loss limits.

**The Ministry of Civil Defence & Emergency Management (MCDEM) 60/40 agreement**

- 4.20 Our insurance cover and policies consider the Government funding assistance relating to the rebuild or repair of damaged below-ground and above-ground essential infrastructure. That funding assistance requires that the assets be insured.

**Insured essential infrastructure assets**

- 4.21 The Guide to the National CDEM Plan states that Government assistance will not normally be available for damaged essential infrastructure assets that receive a subsidy from any other source. The maximum Government contribution for eligible damaged essential infrastructure is 60 percent of the rebuild or repair cost.

**Below ground essential infrastructure**

- 4.22 A local authority's 40 percent funding contribution is generally expected to be made up of an insurance settlement, with the local authority funding any shortfall.
- 4.23 If the settlement is greater than 40 percent of the rebuild or repair cost, the Government contribution will be limited to the actual shortfall up to the maximum of 60 percent.
- 4.24 For below ground assets and stop banks etc. that are insured up to a maximum of 40 percent of the cost to repair or rebuild, the cost of the work is eligible for the 60 percent Government funding contribution.

**Above ground essential infrastructure**

- 4.25 To receive the Government contribution, the asset must have been comprehensively insured (if insurance was available) or the local authority reasonably expected the insurance cover to be comprehensive, or where insurance cover has been limited by an insurance company to provide 40 percent of the cost of the work.
- 4.26 The Government will make a 60 percent funding contribution towards the shortfall between an insurance cash settlement and the cost of the repair or rebuilding of any comprehensively insured eligible damaged asset.
- 4.27 An eligible uninsured above ground asset can still receive Government financial assistance up to 60 percent of the cost of the work, if a local authority can clearly show that it was unable to obtain insurance for any reason.
- 4.28 Government funding assistance is a key consideration when taking cover. The Council assumes the 60% support from the Government when determining its cover level. While the asset insurance value is declared for the policy, the policy cover is only for 40% of that value. The Council needs to ensure it has appropriate cover in place to qualify for the Government assistance following a Civil Defence emergency.

<p><b>5. Attachments / Tuhinga tāpiri</b></p>
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Nil



## 6.2 EXTERNAL AUDIT MATTERS

Information Only - No Decision Required

<b>Report To:</b>	Audit and Risk Committee
<b>Meeting Date:</b>	21 March 2024
<b>Report Author:</b>	Charlotte Thomas, Senior Financial Accountant
<b>Report Authorisers:</b>	Mike Drummond, Group Manager - Finance
<b>Report Number:</b>	RFNAU24-03-2

### 1. Summary / Te Tuhinga Whakarāpoto

- 1.1 This report covers matters related to the statutory external audit provider, currently Audit NZ. Audit NZ is responsible for providing an overall audit opinion for the Council, on both the Annual Report and the Long Term Plan. A separate paper has been presented on the Long Term Plan.
- 1.2 The Audit NZ Audit Plan for the Annual Report year ended 30 June 2024 is attached and highlights key audit focus areas (**Attachment 1**).
- 1.3 Each year, a key accounting decision must be made on the valuation for Property, Plant, and Equipment and which classes held at fair value. Asset classes are reviewed, and if inflation is expected to cause a significant increase in value, then independent valuations are obtained for both financial reporting and insurance. For the year ended 30 June 2024, we will be obtaining valuations for Three Waters, Refuse, and Rivers Coastal assets. However, the assets pertaining to Buildings (last revalued on 30 June 2022) and roading (last revalued in 2022) will not undergo revaluation for 2024. There is an accounting audit issue related to the rivers and coastal accounting policy. This involves whether these assets should be valued at cost versus fair value. This will be resolved with Audit NZ in due course.
- 1.4 The interim audit is scheduled to begin on 14 May 2024. An audit risk has been identified relating to Finance team resources. The Finance team will be implementing a version upgrade and the migration of Magiq on site to Magiq Cloud during this week. Appropriate mitigations are in place.
- 1.5 Audit NZ is awaiting an Office of the Auditor-General decision on the proposed fee increase to \$230,000, representing a 52% increase from 2022. Audit NZ has not yet clarified whether additional fees will be charged beyond this amount, but they have outlined 'unplanned work' in their report.
- 1.6 The next Long Term Plan will be the 2024-34 Long Term Plan, which will be adopted in June 2024. This will also be subject to audit.

### 2. Recommendation/s / Ngā Tūtohunga

**That the Audit and Risk Committee receives the External Audit Matters RFNAU24-03-2 report.**

### 3. Fair value assessment

#### Fair Value Assessment of Property, Plant and Equipment ('PPE')

3.1 The purpose of this section is to provide an overview of the fair value assessment process for the Council's Property, Plant, and Equipment (PPE). It highlights the Council's accounting policy, valuation considerations, materiality, and the plan for assessing different asset classes.

#### Council's Accounting Policy

3.2 The Council's accounting policy states that the PPE classes Three Waters, Roading, Refuse, Land, and Buildings are held at fair value. Revaluations to fair value (being depreciated replacement cost) are conducted when there is an indication that the value in our accounts may materially differ from fair value. For material asset classes, this is expected to be every three years, however, these have been occurring more frequently due to high inflation post Covid. This is resulting in unbudgeted expenditure for valuation and additional audit fees.

3.3 Aside from materiality, the decision to conduct valuations is based on various factors, including the costs involved such as valuation and audit fees, as well as the staff time required. Insurance valuation needs, and the impact on depreciation is also considered.

3.4 Council's policy is that valuations are only performed more frequently than three years when the total fair value movements approach or exceed materiality thresholds, or there is a genuine business need. This approach ensures effective resource allocation and focuses on areas with a significant impact on the financial statements. Noting that we perform internal index assessments which suitably inform other decision making, outside of the formal valuation process. External valuation and audit fees consume significant resource in both time and the cost of the valuer and auditor fees.

#### Materiality and Audit NZ

3.5 Audit NZ confirmed that the materiality for asset-intensive PPE is \$176.9 million, but performance materiality for assessing fair values is \$132.7 million. Audit NZ's view is that materiality should be allocated proportionally based on the relative proportion of Net Book Value (NBV) of PPE. We do not fully agree with this view and will consider the proportion calculation, but do not agree that not revaluing an asset class over the proportioned threshold would necessarily result in a material misstatement.

#### Valuation Plan and Rationale for Asset Classes

3.6 After reviewing relevant price index movements, we estimate a total impact on fair value of up to \$181 million. In the year ending 30 June 2024, valuations will be obtained for Three Waters, Refuse, and Rivers, Coastal assets. It is important to note that the valuations for rivers and coastal assets are primarily for insurance purposes and we were not intending for these to be included in the Annual Report. In 2020, the Council decided to hold rivers and coastal assets at deemed cost instead of fair value due to their minimal depreciation, consistent with the treatment of land under roads. However, Audit NZ has expressed concerns about this approach and is awaiting the appointment of a new Audit Director to further discuss the matter and determine if the cost model provides more relevant information than fair value.

#### Remaining Asset Classes

- 3.7 The movement on the remaining asset classes not being revalued is estimated to total of \$67 million, which is significant but not material in the context of the Council's \$2 billion in property plant and equipment. Audit NZ's view regarding proportional materiality has been considered, and it has been calculated that the differences in roading, bridges, and ports may exceed the performance materiality applied to that class. However, this is not material to the decisions made by the users of the financial statements. Therefore, no revaluations of Land, Buildings, Roading, Bridges, or Ports are planned for 2024. These will be assessed in 2025. Noting that appropriate asset value inflation assumptions are included in the Long Term Plan for the funding of the depreciation.
- 3.8 In conclusion, the Council's fair value assessment process for PPE follows a prudent approach that considers materiality and resource allocation. Valuations are conducted when necessary, and the plan for each asset class is based on factors such as indications of material differences and insurance requirements. The Council will continue to engage with Audit NZ to address concerns and ensure the provision of relevant information to users of the financial statements.

### Expected movement calculations

Asset Class	Date of last revaluation	30 June 2023 book value	Expected fair value movement since valuation	Valuation proposed for 2024
Land	30 June 2021	\$222 million	-\$5 million, (-2%) [QV house price index, Tasman]  [materiality disaggregated: \$15 million]	No. Immaterial index movement, land is non depreciable and no insurance requirements.
Buildings	30 June 2023	\$129 million	\$5 million (4%) [CGPI*]  [materiality disaggregated: \$8.7 million]	No. Immaterial index movement and only one year since revaluation.
Roading and bridges	30 June 2022	\$814 million	\$70 million, (9%) [NZTA transport indices**]  [materiality disaggregated: \$55 million]	No. Immaterial index movement and only two years since revaluation. No insurance requirements
Ports	13 August 2019	\$8 million	\$2m (30%)  [materiality disaggregated: \$0.5 million]	No. Immaterial asset class and there are works ongoing. Propose to revalue after works are complete.
<b>Estimated impact</b>			<b>\$67 million</b>	<b>We assess this immaterial for each class and in total.</b>
Three Waters	30 June 2022	\$745 million	\$75m (10%) [CGPI***]	Yes. Movement is significant and

Asset Class	Date of last revaluation	30 June 2023 book value	Expected fair value movement since valuation	Valuation proposed for 2024
				information is required for depreciation and insurance.
<b>Refuse</b>	30 June 2020	\$22 million	\$6m (30%)	Yes. While not material, information is required for depreciation and insurance.
<b>Coastal</b>	30 June 2017	\$5 million	\$6m (30%)	Yes. While not material, information required for insurance.
<b>Rivers</b>	30 June 2017	\$89 million	\$27 million (30%)	Yes. Trivial depreciation, however revaluation primarily driven by insurance needs.
<b>Estimated fair value increase to 30 June 2024</b>			<b>\$114 million</b>	Valuations to be obtained.
<b>Total estimated fair value increase to 30 June 2024</b>			<b>\$181 million</b>	

**Index assumptions for material asset classes:**

\*Actual Capital Goods Price Index ('CGPI') for Non-Residential Buildings from 30 June 2023, to 31 December 2023, was 2%. It is assumed to be 4% to 30 June 2024.

\*\*Actual NZTA (New Zealand Transport Agency) indices from 30 June 2022, to 31v December 2023, were as follows: Reseals excluding bitumen 7%, Network outcomes 4%, Structures 4%, Construction 4%, Professional services 7%, and Bitumen -2%. We have assumed an increase of 9% to 30 June 2024.

\*\*\*Actual Capital Goods Price Index for Systems related to Sewerage and Water from June 2022 to 31 December 2023, was 8%. We have assumed an increase by 10% until 30 June 2024.

**4. Annual Report Audit Engagement and timeline for the year ended 30 June 2024**

- 4.1 The Interim audit is schedule for May 2024, the final audit timeline has not yet been confirmed. A risk has been identified relating to resources as Finance will be implementing Maqiq upgrade and move to the Cloud during this week. Appropriate mitigations are in place.
- 4.2 The Audit Manager and Supervisor have been assigned, however, the Director is yet to be confirmed.
- 4.3 The Annual Report audit fees for 2023 were \$237,000 excluding disbursements, an increase of 33% compared to actual fees in 2022. Audit NZ have proposed this will increase to \$306,989 for 2024 and \$330,510 for 2025. All plus disbursements.

**5. Annual Report Audit Plan for the year ended 30 June 2024**

- 5.1 The Audit plan attached outlines the main audit risks and issues, the focus areas for the Tasman District Council for the year ending 30 June 2024. The key audit focus areas have been reviewed by the Council and we have ensured we are well prepared, or have plans in place, to address these areas. As in previous years, the focus areas are likely consistent with other councils, except for Waimea Water Ltd accounting which is specific to Tasman District Council.
- 5.2 Fair value assessment of PPE: One of the main audit risks is that the carrying value of property, plant and equipment ('PPE') may differ materially from the fair value, especially for infrastructure assets that are subject to flood risk or earthquake damage.
- 5.3 Accounting for joint ventures and other joint operations: The Council has interests in various joint ventures and other joint operations, such as Waimea Water Limited, Infrastructure Holdings Limited, and Joint Committees with Nelson City Council. These require complex accounting treatments and adjustments to comply with the public benefit entity accounting standards.
- 5.4 "Local Water Done Well" programme: The Council may be affected by the Government's "Local Water Done Well" programme, which aims to reform the drinking water regulatory framework and provide new options for service delivery and financing. The Council should disclose the potential impact of the programme (to the extent it can be assessed) in the annual report.
- 5.5 Compliance with laws and regulations: The audit also examines whether the Council complies with laws and regulations that directly affect its financial statements or general accountability, such as the drinking water standards, the resource consents for wastewater and stormwater discharge, and the Building Consent Authority Accreditation
- 5.6 Financial Statement materiality (see page 12 of the Audit Plan):
- 5.6.1 Overall, \$176.9 million (2023: \$186.6 million) – this only applies to property, plant and equipment revaluation.
- 5.6.2 Specific \$4.15 million (2023: \$4.1 million) – this applies to all other transactions and balances unless material by nature or the fair value of property, plant and equipment above.
- 5.6.3 Clearly trivial \$205,500 (2023: \$207,500) – all errors above this are reported in the annual Representation Letter.
- 5.7 Materiality is set for service performance information at an individual measure level based on what Audit expect would influence readers' overall understanding, decision making or assessment of Council's performance. Audit NZ has identified 12 material measures in its report.

**6. Risks, Controls, Fraud and other matters**

- 6.1 We are not aware of any significant risks to the adoption of the Annual Report 2024.
- 6.2 Controls have been operating effectively.
- 6.3 There have been no known or suspected frauds in the year. There is a global increase in the risk of cyber fraud, including Accounts Payable fraud. The finance team has increased its manual controls and is exploring options to reduce the risk further.

**7. Attachments / Tuhinga tāpiri**

1. [↓](#) Annual Report - Audit NZ Audit Plan 30 June 2024

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# Audit plan

## Tasman District Council

For the year ending 30 June 2024

## Audit plan

I am pleased to present our audit plan for the audit of the Tasman District Council (the Council) for the year ending 30 June 2024. The purpose of this audit plan is to discuss:

Audit risks and issues .....	2
Our audit process .....	10
Reporting protocols.....	16
Audit logistics.....	17
Expectations.....	19
Changes in financial reporting standards .....	20

The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

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

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

Yours sincerely

John Mackey  
Appointed Auditor  
6 March 2024



## Audit risks and issues

### Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. They will be the main focus areas during the audit. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements and statement of service performance. As part of the wider public sector audit, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence.

Audit risk/issue	Our audit response
<b>Fair value assessment of property, plant and equipment (PPE)</b>	
<p>The Council’s accounting policy is to revalue its PPE every three years. The PPE accounting standard requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>Land was last revalued as at 30 June 2021, buildings were last revalued as at 30 June 2023, and the infrastructure assets (including roading, three waters and refuse) were last revalued as at 30 June 2022.</p> <p>The accounting standards require the Council to perform a comprehensive analysis to determine whether there is a significant difference between the fair value and the carrying value that would trigger the need for the Council to revalue its land as at 30 June 2024.</p> <p>The major potential risk is with infrastructure assets so the Council should perform this fair value assessment early so there are no delays to the preparation and audit of the annual report.</p> <p>However, the Council’s infrastructure assets, and land and buildings may need to be impaired to reflect any heightened flood risk, and/or earthquake assessments undertaken.</p> <p><b>Audit risk</b></p> <p>The carrying value of PPE, disclosed in the financial statements, is materially different from the fair value.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• assess the fair value assessment process, including the competence and experience of the person completing the assessment;</li> <li>• obtain copies of the fair value assessment and discuss the assessment process with the relevant personnel, focusing in particular on the assumptions adopted;</li> <li>• review the fair value assessment methodology to ensure it complies with generally accepted accounting practice;</li> <li>• test the validity of the assumptions adopted and whether they have been applied consistently;</li> <li>• ensure any changes to useful lives have been appropriately taken up, and values and depreciation charges have been appropriately accounted for; and</li> <li>• review the Council’s assessment of fair value against carrying value, for each asset class not scheduled to be revalued this year.</li> </ul>











































### 6.3 LONG TERM PLAN UPDATE

Information Only - No Decision Required

<b>Report To:</b>	Audit and Risk Committee
<b>Meeting Date:</b>	21 March 2024
<b>Report Author:</b>	Alan Bywater, Team Leader - Community Policy; Matthew McGlinchey, Financial Performance Manager
<b>Report Authorisers:</b>	Mike Drummond, Group Manager - Finance
<b>Report Number:</b>	RFNAU24-03-3

#### 1. Summary / Te Tuhinga Whakarāpotō

- 1.1 Work has been progressing on multiple parts of the Long-Term Plan (LTP) 2024-2034.
- 1.2 A formal report was presented to the Council on 13 December 2024 to ratify a number of decisions that will inform the LTP consultation document and supporting information.
- 1.3 The Council has signed a letter of engagement with Audit NZ for the audit of the consultation document and final document phases of the LTP 2024-2034. A fee has now been agreed with Audit NZ, which is the previous LTP plus a 23% adjustment. In total, this equates to \$183,000 plus disbursements.
- 1.4 Audit NZ commenced auditing the Infrastructure Strategy, the Transportation Activity Management Plan, and the Water Supply Activity Management Plan in December 2023. Audit NZ has been auditing the LTP consultation document, related policies and supporting information since 5 February 2024. Audit NZ staff spent two weeks on site with the remainder being completed remotely. Staff meet weekly with Audit NZ and a representative from the Office of the Auditor General (OAG) attends these meetings. While they have raised issues, these have been addressed as the audit proceeds. A file was presented to the OAG on 12 March 2024. They raised one issue which was addressed by staff.
- 1.5 The Office of the Valuer General (OVG) has reviewed the revaluation file provided by Quotable Value (QV) our valuation providers. The OVG is requiring further information, and this has led to a slight delay in sign off (likely in the order of one week). The 3-yearly property revaluation data was originally scheduled for release to ratepayers on 27 March 2024. While this means a delay in ratepayers receiving this information, it ultimately ensures our ratepayers receive accurate and reliable property valuations.
- 1.6 The draft forecasting assumptions were shared with the Audit and Risk Committee at the meeting on 8 June 2023, and further updates were provided at the Committee meeting on 8 December 2023. Some of these have been updated again, based on Audit NZ feedback or to include new information. Following Audit NZ feedback, a new assumption is included on the amount of community funding expected for some community facilities.
- 1.7 Audit NZ raised concerns over the way we had referred to the balanced budget and financial prudence in the financial strategy and the consultation document. That was because we were not meeting the financial prudence benchmarks for every year of the draft LTP, and we

were no longer providing for emergency reserves. We have amended the documents to include more explanation on these matters.

- 1.8 Staff have made two further revisions to performance measures since they were last workshopped in November 2023.

## 2. Recommendation/s / Ngā Tūhunga

**That the Audit and Risk Committee receives the Long Term Plan Update report RFNAU24-03-3.**

## 3. Audit NZ Engagement

- 3.1 Audit NZ completed its audit on 8 March 2024 over five weeks as per the agreed timeline. Audit NZ prepared a file that was reviewed by OAG on 12 March 2024. This was successful with a clean audit opinion now being expected from Audit NZ. Audit NZ requires two clear weeks to audit the final LTP documents once drafted.
- 3.2 Staff have a timeline for the next three months to ensure the LTP is adopted in line with our statutory obligations.
- 3.3 The audit fee of circa \$183,000 (plus disbursements) has been agreed to by staff. The increase of 23% was applied across all councils in New Zealand.
- 3.4 Audit NZ has raised numerous matters over the five-week period that staff have responded to. The weekly meeting ensures that any critical issues are addressed in a timely manner. At times there is a tension between Audit NZ's perspective and producing a consultation document that is easy for the public to understand and digest.
- 3.5 Given the clean OAG review, the process followed has worked very effectively between both parties. The Audit NZ staff are of a very high quality. This has made the whole process run very smoothly compared with past experiences. Having assigned a senior finance staff member to solely deal with LTP matters and leave other BAU work behind has also proved to be very beneficial.
- 3.6 There are issues that Audit NZ will raise for the OAG to consider in their hot review being:
  - 3.6.1 Waka Kotahi funding uncertainty including regional passenger transport initiatives
  - 3.6.2 External funding for new community facilities
  - 3.6.3 Financial prudence - not pre-funding for emergency events
  - 3.6.4 Climate change retreat planning and limited financial provision - disclosure of risk sufficient?
  - 3.6.5 Disclosure about funding infrastructure, in compliance with NPS on Urban development, with substantial development contributions funding not to be received until years later and outside of the LTP period.
  - 3.6.6 Levels of service for water supplies and smooth travel exposure.
  - 3.6.7 Rationale for the prudence of Financial Strategy taking into account below and possible implications on the audit report:
    - 3.6.7.1 Prudence benchmarks
      - 1 Unbalanced budget for five years of the LTP

- 2 Council to pass resolution at LTP adoption
  - 3 Rates increases - breaches the cap in two years
  - 4 Debt caps - breaches in two years
- 3.7 Additional disclosures have been made in the financial strategy and CD to address the above matters

#### **4. Revaluation Update**

- 4.1 Every three years the Council, via our valuation provider Quotable Value (QV), undertakes a revaluation of all ratable properties in the District.
- 4.2 A file was provided by QV to the OVG in early March 2024. The OVG as part of its audit programme is requiring further information and this has led to a slight delay in sign off (likely in the order of one week). Sign-off by the OVG is now expected to occur on 22 March 2024, with lodgements to ratepayers posted on 3 April 2024.

#### **5. Forecasting Assumptions**

- 5.1 The Council's Long Term Plan 2024-2034 is required to identify all the significant forecasting assumptions and risks underlying the financial estimates (s17, Schedule 10, Local Government Act 2002).
- 5.2 Significant forecasting assumptions need to be:
  - 5.2.1 realistic;
  - 5.2.2 evidence-based – especially where assumptions are outside industry norms;
  - 5.2.3 internally consistent with other assumptions; and
  - 5.2.4 applied consistently across the LTP and supporting documents (unless there is a good reason not to and the difference in treatment and reason are both explained).
- 5.3 The draft forecasting assumptions were shared with the Audit and Risk Committee at its 8 June 2023 meeting, and further updates were provided to the Committee on 8 December 2024.
- 5.4 The quality of assumptions and modelling are of high interest to the LTP Auditor. The Auditor is required to express a view on the quality of the forecasting assumptions in their report.
- 5.5 Several assumptions have been updated, based on Audit NZ feedback, including the following amendments:
  - 5.5.1 Development Contributions (DCs) and Reserve Financial Contributions (RFCs): the assumption notes that the Council calculates and collects Development Contributions to fund growth infrastructure for the next 30 years and that the Council will borrow to fund a significant amount of growth infrastructure in Years 1 to 10, which will be recovered from Development Contributions as growth occurs over the next 30 years. The amount of revenue the Council expects to collect from DCs and RFCs over ten years has also been updated.
  - 5.5.2 Interest Rates: the assumption notes that the Council will review the interest rate assumption with our treasury advisors, PwC, while out for consultation. Interest rates are volatile at present and the Council will ensure the most up-to-date rates

are used. In February 2024, the Standard and Poors Global Ratings agency revised their outlook on 15 Councils down that included Tasman moving to a negative outlook. One of the drivers will be the level of debt increases without a corresponding increase in rates income across the sector. Given the Councils projected increase in borrowing (relative to rates) in the draft LTP we may see a downgrade at our annual review later this year.

5.5.3 Waka Kotahi NZ Transport Agency funding: the level of uncertainty for this assumption has been increased from Medium to High. This reflects the risk that the Government Policy Statement on Land Transport set by the National-led government could have different priorities that affect the National Land Transport Plan and its funding.

5.6 Following Audit NZ feedback, a new assumption is included on the amount of community funding expected for some community facilities:

5.6.1 That the investment in the following facilities will be funded by a contribution fundraised by the local community, with the balance funded by the Council.

5.6.1.1 Waimea South Community Facilities (in Wakefield and Brightwater) – 23% community-funded

5.6.1.2 Motueka Swimming Pool – 22% community-funded

5.6.1.3 Tapawera Community Hub – 33% community-funded

5.6.1.4 Murchison Sport, Recreation and Cultural Centre – Stage 2 – 27% community-funded.

5.6.2 There is a high level of uncertainty for this assumption and a risk that the community is unable to fundraise the level of funding required by the time the facility development is planned. However, the risk will not increase the LTP financial estimates without a specific decision by the Council to increase its share of the funding. If the community is unable to contribute the expected level of funding, the broad options open to the Council are to delay the project to allow more fundraising to take place, explore other funding options, or, as a last resort, cancel the project.

5.7 Several assumptions have been updated to include new contextual information, include the assumption for our Three Waters Activities. It is assumed that delivery of the Council's Three Waters Activities, including the Council's shares in the Waimea Community Dam, will remain with Tasman District Council. The assumption notes that in February 2024, the National-led Government repealed the previous government's Affordable Waters legislation.

5.8 The Long Term Plan assumes an opening balance sheet position e.g. for example debt levels and asset values as of 30 June 2024. The opening balance sheet position will be updated for the final LTP based on the latest year end reforecast. That update will consider any known carryovers in the capital works programme and have flow on impacts on the income statement. This will likely impact on both the rates and debt levels for the final LTP, and some reprioritisation of the capital works will likely be required.

## **6. Levels of Service Performance Measures**

6.1 The proposed changes to Levels of Service and Performance Measures were workshopped with Councillors on 30 November 2023 and shared with the Audit and Risk Committee for information at its 8 December 2024 meeting.



- 6.2 Since the workshop in November 2023 there have been two changes to performance measures.
- 6.3 An Environmental Management performance measure has been changed from “*An annual Dairy Monitoring report is available that details the performance of the District’s dairy farms against the Council’s dairy effluent discharge rules and relevant national legislation.*” to “*All active dairy farms in the district receive at least one inspection/audit for compliance with the rules controlling dairy effluent disposal.*”
- 6.4 The previous measure had targets which did not relate to the measure as it was written; compliance of the farms was being recorded rather than the availability of the report. The new measure is more appropriate for the work that the Council does and what it has control over.
- 6.5 In the November 2023 workshop a Public Health and Safety performance measure was proposed for change; “*In conjunction with the New Zealand Police, we detect no sale of liquor to minors through random controlled purchase operations (CPOs) run annually.*” This was not able to be measured for several of the last five years due to Police availability.
- 6.6 It was initially proposed that this measure would change to “*We will ensure that a fully resourced District Licensing Committee is available to carry out its legislated functions.*” However, this has since been revised to “*All alcohol licensing inspector reports for alcohol licence applications (excluding those with public objections or requiring additional information from the applicant) are complete and submitted to the secretary of the District Licensing Committee within 15 working days following the conclusion of the public notification period.*”
- 6.7 This change reflects an issue of importance to the public and elected members, who have historically had concerns over how long it can take to be issued with an alcohol licence.

<p><b>7. Attachments / Tuhinga tāpiri</b></p>
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Nil



## 7 CONFIDENTIAL SESSION

### 7.1 Procedural motion to exclude the public

The following motion is submitted for consideration:

**That the public be excluded from the following part(s) of the proceedings of this meeting. The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.**

**This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:**

### 7.2 Legal and Democracy Services Report

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege.	s48(1)(a)  The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

### 7.3 Cybersecurity Update

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(j) - The withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	s48(1)(a)  The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

### 7.4 Risk and Assurance Report

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
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<p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>	<p>s7(2)(c)(ii) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.</p> <p>s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege.</p>	<p>s48(1)(a)</p> <p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>
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