

Date: Wednesday 10 July 2024
Time: 1:00pm
Meeting Room: Tasman Council Chamber
Venue: 189 Queen Street, Richmond

Audit and Risk Committee

Komiti Tatari me te Tuponotanga

MINUTES ATTACHMENTS

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AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Tasman District Council

Te Kaunihera o te tai o Aorere

Audit Status Update to the
Audit and Risk Committee

10 July 2024



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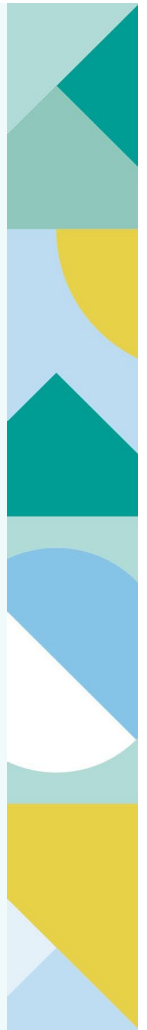
Executive Summary - Audit Plan for FY24 Annual Report Audit



Status update - FY24 Annual Report Audit



Key Accounting Technical issues and Review of Risk Management Framework





Executive Summary

Audit Plan for FY24 Annual Report Audit

Audit plan for the year ending 30 June 2024



Key areas of audit focus

- Valuation of Property, Plant and Equipment held at fair value
- Impairment of property, plant and equipment (PPE)
- Capital asset additions and work-in-progress
- Waimea Water Limited (WWL)
- Accounting for joint ventures and other joint operations
- Information Technology system
- Risk of management override of internal controls



Sector focus areas

- Local Water Done Well
- Compliance with drinking water standards (DWS)

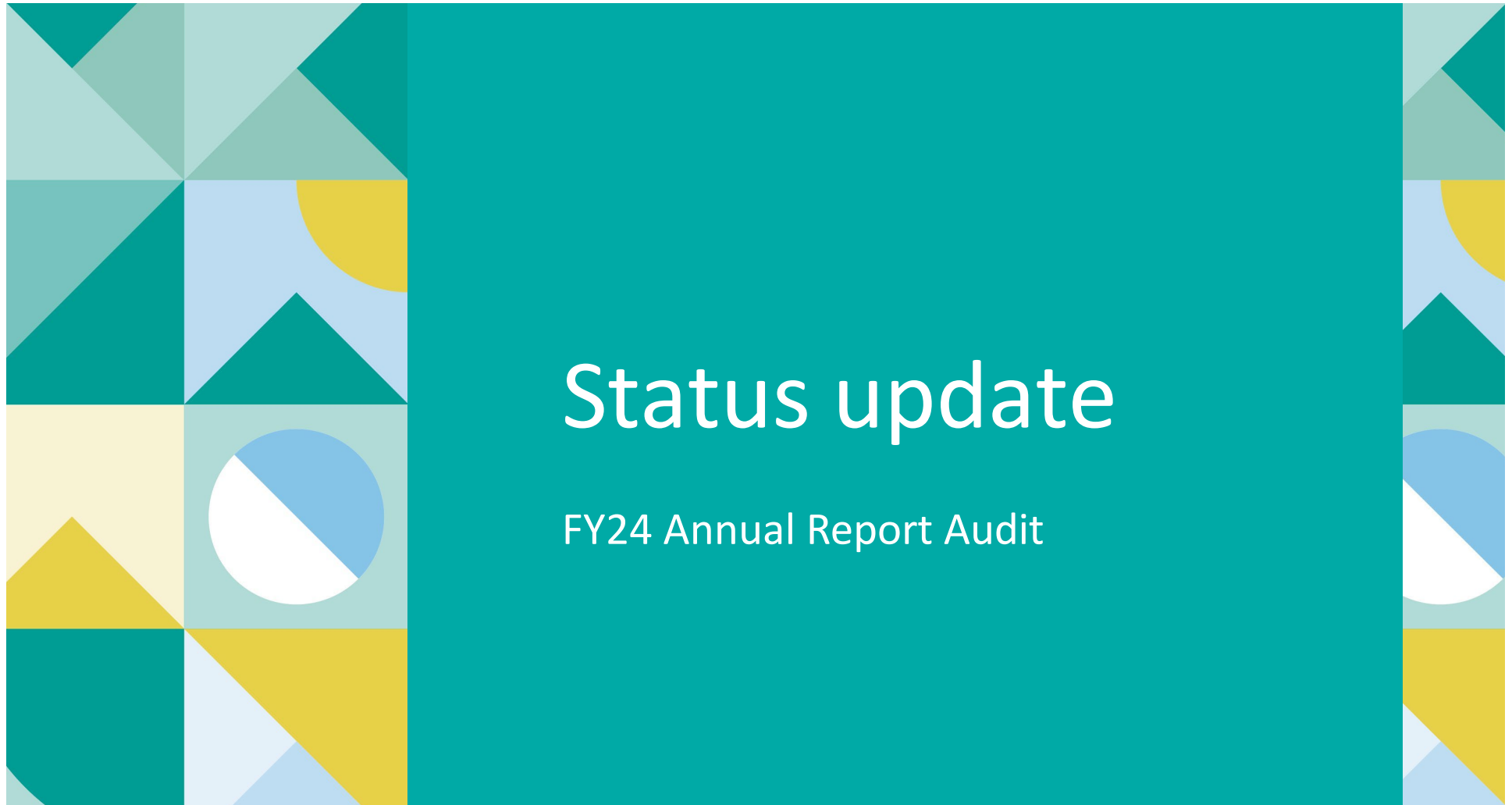


Material performance measures

- Safety of drinking water
- Water supply - Customer satisfaction
- Wastewater - system adequacy
- Wastewater - Discharge compliance/ management of environmental impacts
- ✳ **Road - Asset quality - renewal of assets**
- Road condition
- Stormwater - resource consents
- Building services
- ✳ **Rivers – flood protection**
- ✳ **Public Transport**
- ✳ **Environment Management - Resource consent monitoring and Water swimmable**



This year's key areas of audit focus and sector focus areas are consistent with the prior year. However, we identifies a few new material performance measures as they are important for either decision making or assessing accountability. We also ensure that we take a consistent approach to the selection of material performance measures for the Councils that are inherently similar.



Status update

FY24 Annual Report Audit

Snapshot for FY24 Annual Report Audit



Percentage of completion – 25%.



Subject to indices movement review up to June 2024, we concur with management’s position not to revalue Land, Buildings, Roothing, Bridges or Ports for FY24 annual report purpose.



3 waters, Refuse, and Coastal will then be re-valued.
All the revaluation will be performed by external expert.



We have not identified any significant control deficiencies so far; however general information technology controls assessment has not yet started.

We have not identified any material issue through our completeness testing over the data transfer from MagiQ to Affinity.



We will report new recommendations and the status of the prior year recommendations in our final report to the Council.

Key accounting technical issues



Infrastructure assets held at cost

- From a prudent financial management perspective, Councils should revalue their infrastructure assets to ensure they are getting adequate money to fund their operations.
- However, there is an accounting choice in this regard, where the infrastructure assets are held by the Council with an indefinite useful life (non-depreciable assets).
- **Changing from the current measurement approach from revaluation model to cost model is permissible.**
- A pragmatic approach can be taken as to treat the carrying value of the assets as deemed cost when revaluation ceases and transfer the balance of revaluation reserve to the retained earnings.



Investment in Infrastructure Holding Limited – Control Assessment

- **We concur with management that IHL is a joint arrangement, and more specifically a joint venture and not a joint operation.**
- We have also concluded that IHL is a public entity because it is controlled by two entities (i.e., local authorities) of the kinds referred to in section 5(1)(c) of the Public Audit Act 2001.
- We have issued referral instruction to EY and we have requested to review their audit file post their completion of IHL audit in conjunction with Nelson City Council audit team.



Investment in Infrastructure Holding Limited – Accounting for Share Swap

- Effectively a capital reorganization, which results in no realisation of gains or losses by the Council.
- **We concur with management that the transaction does not have commercial substance.** This means the transaction should be accounted for based on the carrying value of the previously recognised equity interest in PNL and NAL. This will result in no gain or loss being recognised on the disposal of PNL and NAL, or acquisition of IHL.
- We have considered the arguments for and against derecognition of amounts previously recognised in other comprehensive revenue and expense. The issue can be debated both ways.



Accounting for Waimea Water Limited

- **WWL audit team concurs with management when to start depreciating the Waimea Water Dam (1 June 2024).**
- Accounting for Council's share of Waimea Water's revenue post practical completion:
 - WIL as the other joint operator has rights under the Water Augmentation Agreement to 70% of the output (in hectare equivalents of water). TDC therefore has no rights to this output or any revenue from this.
 - The remaining 30% of the total hectare equivalents is provided to TDC, TDC will then on-sell this to its rate payers (and potentially to the Nelson City Council). **The sales of this water supplied is what is envisaged by PBE IPSAS 37.23(c), described as its revenue from the sale of its share of the output arising from the Joint Operation.**

Review of Risk Management Framework



Our review of risk management included a review of Council's updated Risk Management Framework (the Framework) against good practice. We also considered whether the Framework has been embedded within Council risk management practice. We did not review the Council's Risk Management Policy (the Policy) against good practice as it was still being revised.

Risk Management Framework

While the Framework aligns with ISO 31000:2018 (the International Standard on Risk Management referenced in the Framework) principles, we identified several areas for potential enhancement as the Framework undergoes further refinement or future reviews.

We also identified inconsistencies between the Framework and the existing Policy that need to be addressed to prevent confusion.

We recommend that the Council continues to invest in the ongoing development of its people at all levels in risk management.

Risk management practice

The Council has informed us that the Framework has not been embedded, and risk management is not yet integrated across the Council. We are however encouraged to see that Council has created a roadmap that outlines practical and pragmatic steps to enhance risk management maturity and embed the Framework.

We are encouraged to see that a risk register is being developed, which should improve risk management.

The risk function, together with oversight from the Audit and Risk Committee has the potential to further strengthen the Council's risk management practices. We suggest conducting regular reviews to assess the effectiveness of the risk function.

Management comments

We are incorporating the suggestions within the Framework and will complete the policy review to align with the updated Framework.

We are progressing the road map in socialising what risk management is with ELT and Senior Management, working toward a fully Integrated Risk Management programme.

