

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=OFNUMWY4NStySHhIN0ZIRzIxZjNRZz09>
Meeting ID: 886 5119 8309
Meeting Passcode: 826793

Audit and Risk Committee

Komiti Tatari me te Tuponotanga

AGENDA

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

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

Contributing Factors

Low original base (2018/19 \$1,317,000)
Large Increases in Asset Values/replacement costs and increases in Revenue
Frequency of natural disasters.

Other Factors

Coverage reductions
Capacity constraints

Overview of Current Insurance Premiums 2023/24

Type of Cover	Marsh	AON	Total
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
Total Premiums	2,712,358	869,778	3,582,136

- 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.

5. Attachments / Tuhinga tāpiri

Nil

6.2 EXTERNAL AUDIT MATTERS

Information Only - No Decision Required

Report To:	Audit and Risk Committee
Meeting Date:	21 March 2024
Report Author:	Charlotte Thomas, Senior Financial Accountant
Report Authorisers:	Mike Drummond, Group Manager - Finance
Report Number:	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.
Estimated impact			\$67 million	We assess this immaterial for each class and in total.
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.
Refuse	30 June 2020	\$22 million	\$6m (30%)	Yes. While not material, information is required for depreciation and insurance.
Coastal	30 June 2017	\$5 million	\$6m (30%)	Yes. While not material, information required for insurance.
Rivers	30 June 2017	\$89 million	\$27 million (30%)	Yes. Trivial depreciation, however revaluation primarily driven by insurance needs.
Estimated fair value increase to 30 June 2024			\$114 million	Valuations to be obtained.
Total estimated fair value increase to 30 June 2024			\$181 million	

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 31 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 scheduled 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
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1. [!\[\]\(5eb1325dfdc3f1cad8426726c0db51cd_img.jpg\)](#) 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
Fair value assessment of property, plant and equipment (PPE)	
<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>Audit risk</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"> • assess the fair value assessment process, including the competence and experience of the person completing the assessment; • obtain copies of the fair value assessment and discuss the assessment process with the relevant personnel, focusing in particular on the assumptions adopted; • review the fair value assessment methodology to ensure it complies with generally accepted accounting practice; • test the validity of the assumptions adopted and whether they have been applied consistently; • ensure any changes to useful lives have been appropriately taken up, and values and depreciation charges have been appropriately accounted for; and • review the Council's assessment of fair value against carrying value, for each asset class not scheduled to be revalued this year.

Audit risk/issue	Our audit response
Valuation of property, plant and equipment (PPE)	
<p>The Council revalues its land and buildings, and infrastructure assets, held at fair value, based on its accounting policy or whenever there is expected to be a material movement in the fair value of these assets. Due to the recent inflationary environment, most councils have revalued more frequently.</p> <p>Audit risk</p> <p>The accuracy of the valuation depends on the valuation method applied, the completeness and accuracy of the source data, and the appropriateness of the underlying assumptions. Due to the large value of the assets held by the Council, a small movement in the key assumptions can have a significant impact on the valuation and consequentially on the depreciation expense recognised in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> review the valuation report to assess the competence and experience of the valuer and whether the requirements of accounting standard, PBE IPAS 17, <i>Property, Plant and Equipment</i> (including the appropriateness of the valuation basis), have been met; audit the method of valuation of the assets and assess if the valuation method used aligns with the financial reporting framework; review the reasonableness of the data and key assumptions used; and assess the presentation and disclosure of the valuation in the financial statements.
Impairment of property, plant and equipment (PPE)	
<p>The impairment of assets accounting standards requires an entity to assess at each reporting date, whether there is any indication that an asset may be impaired. If any such indication exists, the entity is to determine the recoverable amount of the asset.</p> <p>The Council should determine whether there are any indicators of impairment in its infrastructure, PPE and intangible assets. This should be undertaken well before year-end so any indications of impairment can be identified and accounted for, in the year-end financial statements, in a timely manner.</p> <p>We note that the Council's infrastructure assets, and land and buildings may need to be impaired to reflect either any damage from any recent flooding events, and the heightened flood risk from climate change.</p> <p>Audit risk</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"> assess the process undertaken to determine whether there are indicators of impairment, including the competence and experience of the person completing the process; obtain copies of any impairment assessment performed and discuss the assessment process with the relevant personnel, focusing in particular on the assumptions adopted; review the impairment assessment methodology to ensure it complies with generally accepted accounting practice; test the validity of the assumptions adopted and whether they have been applied consistently; ensure any changes to useful lives have been appropriately taken up, and values and depreciation charges have been appropriately accounted for;

Audit risk/issue	Our audit response
	<ul style="list-style-type: none"> • assess the presentation and disclosure of information related to the impairment assessment in the financial statements; • test the integrity of the underlying data used for the impairment assessment; and • ensure that it is correctly accounted for in compliance with the accounting standards.
Capital asset additions and work-in-progress	
<p>The Council continues to have a significant ongoing capital programme. Accounting for capital projects, that are either completed during the year or in progress at balance date, requires assumptions and judgements to be made that can have a significant impact on the financial statements, including:</p> <ul style="list-style-type: none"> • assessment of the nature of costs and either capitalisation of them as work in progress, or their recognition as expenses; • identification of asset components and assignment of appropriate useful lives to these components; and • identification of the appropriate date of capitalisation of the asset, transfer of costs from work in progress to asset additions and the commencement of depreciation of the asset. <p>Audit risk</p> <p>Incorrect classification of costs between capital and operating expenditure, and delays in charging depreciation after an asset enters use.</p>	<p>We will review the accounting for costs incurred on capital projects, including:</p> <ul style="list-style-type: none"> • the correct classification of costs as either capital or operating in nature; • appropriate capitalisation of completed assets, including transfers from work in progress; • the reasonableness of depreciation rates and useful lives applied to asset components; and • the disclosures within the financial statements.
Waimea Water Limited (WWL)	
<p>Dam completion</p> <p>WWL has disclosed that it expects the Dam will be complete and certified within the next few months. If this is the outcome at 30 June 2024 then the Council will need to recognise its share of the cost of the Dam in the relevant classes of PPE and any depreciation expense.</p> <p>Consolidation</p> <p>The Council accounts for WWL as a joint operation and recognises its share of WWL's revenue, expenses, assets and liabilities. This is complex as</p>	<p>We will review:</p> <ul style="list-style-type: none"> • management's assessment of the Council's share of the cost of the Dam in the relevant classes of PPE and any depreciation expense, and WWL's financial statements; • management's assessment of the Council's interest and compare it to the agreements, and the projections of contributed equity and shares to be received in the coming years as well as the other financing

Audit risk/issue	Our audit response
<p>the Council's proportion of voting shares held, changes on a monthly basis.</p> <p>With further overruns on the Waimea dam's construction cost, the Council has needed to enter into revised agreements with the relevant parties, to fund the shortfall through providing loans advances to WWL rather than investing in its shares.</p> <p>We expect that management will analyse the impacts on the consolidation process as well as the changes in the Council's voting shares held from the Council's subscription for further shares in WWL, to appropriately recognise the Council's interests.</p> <p>Guarantees</p> <p>Agreements, signed by the Council, for the construction of the dam and the establishment of WWL, include a guarantee for possible overruns of construction costs, and a financial guarantee of WWL's loan facility.</p> <p>The value of the guarantees, at the end of the last financial year, was nil because there was insufficient information to reliably assess the value.</p> <p>The Council needs to assess what is the current value of guarantees, given all known information on changes of construction costs, including changes to the original design, and the ability of WWL to pay off the loan facility.</p> <p>Audit risk</p> <p>Share of Council's investment in Waimea Water Limited, is incorrectly recognised in the financial statements.</p> <p>Financial guarantee is understated in the financial statements.</p>	<p>arrangements entered into with the Council;</p> <ul style="list-style-type: none"> the Council's assessment as to how progress on the dam's construction impacts on the overall cost of its construction, and if the assessment of possible overruns is complete and accurate; and the calculation of financial liabilities for guarantee, and how they have been recognised or disclosed in the financial statement.
Accounting for joint ventures and other joint operations	
<p>The Council's non-controlling interests in Port Nelson Limited and Nelson Airport Limited were transferred to Infrastructure Holdings Limited (IHL) in exchange for shares in IHL.</p> <p>IHL applies for-profit entity accounting standards while the Council is a public benefit entity. Different accounting standards apply to public benefit entities and for-profit entities resulting in differences in the treatment of certain transactions and events.</p>	<p>We will review:</p> <ul style="list-style-type: none"> the accounting for the restructure of the investments into IHL to determine it is in accordance with the relevant accounting standards; management's assessment of the adjustments required;

Audit risk/issue	Our audit response
<p>There is the potential for significant adjustments being required when interests for profit entities are accounted for in the Council's financial statements prepared in accordance with the public benefit entity standards.</p> <p>The Council will need to determine whether there are any adjustments needed to comply with the public benefit entity standards.</p> <p>Audit risk</p> <p>Share of Council's investment, in IHL, is incorrectly recognised in the financial statements. Also applies to the Joint Committees with Nelson City Council.</p>	<ul style="list-style-type: none"> • whether the Council has correctly accounted for the adjustments; and • whether the Council needs to revise its accounting for its share of the revenue of the Joint Committees with Nelson City Council.
"Local Water Done Well" programme	
<p>In February 2024, the Government passed legislation that repealed the affordable waters reform legislation passed into law by the previous Government.</p> <p>The Government intends to implement its "Local Water Done Well" programme through the passing of two further bills through Parliament.</p> <p>The first bill will set out provisions for council service delivery plans and transitional economic regulation. It will also provide for streamlining the establishment of Council controlled organisations to deliver water should councils choose to do so.</p> <p>A second bill will set out provisions for long-term requirements for financial sustainability, provide for a complete economic regulation regime, and a new range of structural and financing tools, including a new type of financially independent council-controlled organisation.</p> <p>The first and second bills are expected to be passed by mid-2024 and mid-2025, respectively.</p> <p>Until the content of the bills is known, the impact on the Council and on the 30 June 2024 annual report is unclear.</p> <p>The Council should ensure the annual report includes sufficient disclosure on the impact of the programme (to the extent that the impact is known).</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • review of the Council's assessment of the impact of the legislative change on the annual report to ensure any accounting or disclosure implications are considered; and • evaluation as to whether we include information, in our audit report, to draw a reader's attention to the Council's disclosure about the programme.

Audit risk/issue	Our audit response
Information Technology review	
<p>The Council is IT dependant.</p> <p>The revised auditing standard ISA (NZ) 315 (Revised 2019): <i>Identifying and Assessing the Risks of Material Misstatement</i>, was effective for the audit of the Council's financial statements and performance information, for the first-time last year. The standard sets out how auditors identify and assess the risks of material misstatement in financial statements and the performance information. The standard requires the auditor to understand the entity, its environment, and its internal controls and use that knowledge to identify and assess risks. There are additional requirements compared to the previous standard.</p> <p>Audit risk</p> <p>Misstatement of the financial statements arising from ratepayers' successful challenge of the rates setting process.</p>	<p>We will perform the work set out in the section below in "Our audit process".</p>
Risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by override of controls that otherwise appear to be operating effectively. The risk of management override of controls will vary from entity to entity, but the risk is nevertheless present in all entities. Due to the unpredictable way in which this override could occur, it results in a risk of material misstatement due to fraud. Auditing standard, ISA 240 requires us to treat this as a risk on every audit.</p> <p>Audit risk</p> <p>Fraudulent misstatement of the financial statements arising from management override of internal controls.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • review of accounting estimates for indications of bias; • evaluation of any unusual or one-off transactions, including those with related parties; • evaluation of significant transactions that are outside the normal course of business or those that appear to be unusual given our understanding of the Company and its environment; and • review of any changes in the Council's accounting policies.

Audit risk/issue	Our audit response
Compliance with drinking water standards (DWS)	
<p>The Council is required, along with other territorial authorities, to report on its compliance with the drinking water standards (DWS) to:</p> <p>The extent to which the drinking water supply complies with:</p> <ul style="list-style-type: none"> a. Part 4 of the drinking-water standards (bacteria compliance criteria); and b. Part 5 of the drinking-water standards (protozoal compliance criteria). <p>The Council revised its processes and policies to address the regulatory changes that occurred in 2021. This included that up until November 2021, performance related data was captured in the Drinking Water Online (DWO) database and compliance was assessed by Drinking Water Assessors (DWAs). As a result of changes to the regulatory framework for drinking water quality, the DWO database is no longer accessible and the DWA role no longer exists.</p> <p>Further changes to the regulatory framework for drinking water quality applied from November 2022. Taumata Arowai introduced, following consultation, new DWS, Drinking Water Quality Assurance Rules and Aesthetic Values.</p> <p>Council will need to ensure appropriate systems and controls are in place to ensure performance information is complete and accurate for reporting purposes based on the framework and new requirements that have applied from November 2022.</p>	<p>We will review the Council's systems to assess how we can practically obtain sufficient assurance over the Council's compliance with the DWS and perform the required procedures.</p>

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

Fraud risk

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

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

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

Our responsibility

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

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

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

Our audit process

Initial planning

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

Understand your business and environment

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

Assess audit risk

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

Evaluate internal controls

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

Finalise the audit approach

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

Gather audit evidence

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

Conclude and report

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

Revised auditing standard

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

Additional work is required on your audit compared to earlier years. In your case, the impact is in the following areas:

- A greater emphasis to identify and understand the information technology (IT) applications and the other aspects of your IT environment that are subject to risks arising from the use of IT.
- Evaluation of the design and implementation of the general IT controls that address the risks from the use of IT.
- Evaluation of the new inherent risk factors and update of our risk assessment documentation where relevant to address these risk factors.
- Revisions to the matters we consider in the evaluation of your system of internal control.
- Strengthened documentation requirements for the exercise of professional scepticism. There is a greater emphasis on demonstration of a questioning mind and a critical assessment of audit evidence gathered in the performance of our risk assessment procedures.

Enhancing year-end processes

The year-end financial statement close process and the preparation of the annual report requires significant resources to be committed to complete it effectively. This diverts the attention of your staff away from the current financial year and focuses them on past events. We want the audit process to run smoothly, and we will work with management to achieve this.

Materiality

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

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

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

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

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

Financial statements materiality

For planning purposes, we have set **overall materiality** for the financial statements at \$176,900,000, based on total PPE at 30 June 2023. This is subject to change once the actual results for the current year are available. For this audit, we will only apply this overall materiality to the fair value of PPE where the offsetting entry is to other comprehensive revenue or expense.

Overall materiality	\$176,900,000
Specific materiality	\$4,100,000
Clearly trivial threshold	\$205,000

For this audit, we have set a lower, **specific materiality** of \$4,100,000 based on total expenses for the year ended 30 June 2023, for all items not related to the fair value of PPE, as noted above. A lower specific materiality is also determined separately for some items due to their sensitive nature. For example, a lower specific materiality is determined and applied for related party and key management personnel disclosures. This is also subject to change once the actual results for the current year are available.

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

We will report all uncorrected misstatements to the Council, other than those that are **clearly trivial**. We consider misstatements of less than \$205,000 to be clearly trivial unless there are qualitative considerations that heighten their significance. We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement, we will seek written representations from management and the Council as to the reasons why the corrections will not be made.

Misstatements

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

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

Materiality for service performance information

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

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

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

Material measure	Materiality
Water The extent to which the local authority's drinking water supply complies with: <ul style="list-style-type: none"> a. Part 4 of the drinking-water standards (bacteria compliance criteria), and b. Part 5 of the drinking-water standards (protozoal compliance criteria). Percentage of customers (who receive a service) are satisfied with the water supply. Measured through the annual residents' survey.	Quantitative materiality is not applicable. Quantitative materiality is not applicable. 8%
Wastewater Percentage of customers (who receive a service) are satisfied with the sewerage system. Measured through the annual residents' survey.	8%
Wastewater – Compliance and sustainability Dry weather wastewater overflows, expressed per 1000 connections (<i>Mandatory measure</i>).	5%
Wastewater – Compliance and sustainability (<i>Mandatory measure</i>) Compliance with the resource consents for discharge from the sewerage system, measured by the number of: <ul style="list-style-type: none"> • abatement notices; • infringement notices; • enforcement orders; and • convictions. 	5%

Material measure	Materiality
Stormwater Percentage of customers (who receive a service) are satisfied with the stormwater services. Measured through the annual residents' survey.	8%
Stormwater – <i>Continuity of service and resolution of faults</i> <i>(Mandatory measure)</i> Compliance with the resource consents for discharge from the stormwater system, measured by the number of: <ul style="list-style-type: none"> • abatement notices; • infringement notices; • enforcement orders; and • convictions. 	5%
The number of habitable floors that were affected by flooding events per 1000 properties.	5% of actual reported result.
Public health and safety Maintain Building Consent Authority Accreditation.	Quantitative materiality is not applicable ¹ .
Road safety The change from the previous financial year in the number of fatalities and serious injury crashes on the local road network, expressed as a number.	5%
Smooth travel exposure The proportion of travel undertaken on the sealed road network meets the specified comfort levels. Known as Smooth Travel Exposure.	8%

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements that we identify, to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement, we will seek written representations from representatives of the Council that specify the reasons why the corrections will not be made.

¹ The reported result is to be consistent with supporting qualitative information and is either correct or not correct.

Professional judgement and professional scepticism

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

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

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

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

How we consider compliance with laws and regulations

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

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

Wider public sector considerations

A public sector audit also examines whether:

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

Reporting protocols

Communication with management and the Council



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

Meeting with	Planned timing
Audit and Risk Committee	<ul style="list-style-type: none"> At scheduled meetings plus meetings with the Chairperson. Our objectives: <ul style="list-style-type: none"> to discuss the areas of focus for the audit, and approach; to discuss results of interim audit; and to discuss results of final audit.
Management of the Council	<ul style="list-style-type: none"> During the year. Our objective is: <ul style="list-style-type: none"> to discuss key issues, risks and changes, and the areas of focus for the audit, and approach; to discuss preliminary results of interim audit and approach for final audit; to discuss preliminary results of the final audit; and to de-brief on the audit process in the current year to identify areas for improvement.

Reports to Council



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

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

Audit logistics

Our team



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

Our senior audit team members are:

Appointed Auditor

Cynthia Jani

Audit Manager

Timetable

We remain committed to ensuring the Council adopts its annual report by 31 October 2024 but our resourcing, for the rest of the calendar year, is tight due to the audits of the long-term plans. This means that both the Council, its consultants and the audit team need to work closely together and meet key dates for deliverables to substantially revised. If there are issues with achievement of your statutory deadline, then we will discuss a revised timetable with you.

Our proposed timetable is:

Interim audit begins	13 May 2024
Final audit begins	16 September 2024
Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures, which has been reviewed by all relevant staff at the Council	13 September 2024
Final draft version of service performance which has been reviewed by all relevant staff at the Council	13 September 2024
Annual report available, including any Chair and Chief Executive's overview or reports and any other documents that will be included	27 September 2024
Final financial statements available, incorporating all the amendments agreed to between us	21 October 2024
Verbal audit clearance given	23 October 2024
Draft report to Council issued	25 October 2024
Audit opinion issued	31 October 2024
Final report to Council issued	14 November 2024

AuditDashboard

We will again use AuditDashboard to transfer information as part of the audit.

Working remotely

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

We plan to continue to perform aspects of your audit remotely as there are benefits to you and us through having our team work off-site for parts of the audit. For you, these benefits include:

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

To complete audit work off-site and fully obtain the benefits detailed above, you will need to:

- ensure that you, and the audit team, can assess your systems remotely; and
- store supporting documents electronically and be able to easily retrieve them.

During the previous audit, we were able to perform the majority of our audit work remotely. Based on our experience, we found that the Council has good systems and processes in place to facilitate any future off-site work by us.

We will discuss and agree off-site working expectations, in conjunction with our information requests with you, as part of your 2024 audit. This will include our continued use of AuditDashboard to manage our information requests.

Expectations



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

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

We expect that:

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

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to help explain the audit process:

<https://auditnz.parliament.nz/good-practice/other-resources/all-about-audits/index.htm>

Health and safety



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

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

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required.

We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advice of emergency evacuation procedures and how to report any health and safety issues.

Changes in financial reporting standards

There are no standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant for the Council.



AUDIT NEW ZEALAND
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6.3 LONG TERM PLAN UPDATE

Information Only - No Decision Required

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

1. Summary / Te Tuhinga Whakarāpoto

- 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 Tūtohunga

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.

7. Attachments / Tuhinga tāpiri
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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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