



ATTACHMENTS MINUTES

Audit and Risk Committee

Friday, 7 June 2024

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24.2.13 Audit NZ and Internal Audit Update

Appendix 1 External Audit Report from Audit NZ 4

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of

Central Otago District Council

For the year ended 30 June 2023

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Key messages

We have completed the audit for the year ended 30 June 2023. This report sets out our findings from the audit and draws attention to areas where the Central Otago District Council (the District Council) is doing well and where we have made recommendations for improvement.

Audit opinion

We have issued an unmodified audit opinion dated 13 December 2023.

Without modifying our audit opinion, we included emphasis of matter paragraphs drawing readers' attention to the disclosures in the financial statements relating to the uncertain impact on the Council from the Government's water services reform programme, and the inherent uncertainties in the measurement of greenhouse gas emissions.

Matters identified during the audit

Our audit plan outlined the key matters identified for the audit. We have detailed the nature of these matters in section 3 of the report and the results from our procedures to address these.

Thank you

We would like to thank the Council, management, and staff for their assistance during the audit.



Chantelle Gernetzky
Appointed Auditor
31 May 2024

1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommendations.

Explanation	Priority
Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.	Urgent
Address at the earliest reasonable opportunity, <i>generally within six months</i> These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.	Necessary
Address, <i>generally within six to 12 months</i> These recommendations relate to areas where the District Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.	Beneficial

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Performance Reporting Controls Council to establish internal controls around performance reporting.	5.1	Urgent
Completeness of Infrastructure Assets Council to ensure three waters assets additions are completely recorded in the Assetic System.	5.2	Necessary
Water connections report The water connections (wastewater and drinking water) report should be run at 30 June 2023 to ensure the accuracy of measures disclosed.	5.3	Necessary
Reconciliation of fixed asset register to financial statements Reconcile variances between the Fixed Asset Register and Financial Statements.	5.4	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous years' recommendations. Appendix 1 sets out the status of previous year's recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open recommendations	-	3	-	3
Implemented or closed recommendations	1	2	2	5
Total	1	5	2	8

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 13 December 2023. This means we were satisfied that the financial statements and statement of service performance present fairly the Council's activity for the year, and its financial position at the end of the year.

Without modifying our audit opinion, we included emphasis of matter paragraphs to draw attention to the disclosure made in the financial statements on the uncertainty over the Government's water services reform programme, and the inherent uncertainties in the measurement of greenhouse gas emissions.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we discussed all identified misstatements with management, other than those which were clearly trivial. Management corrected all misstatements identified and no uncorrected misstatements remain.

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. The corrected misstatements are listed in Appendix 2.

2.4 Quality and timeliness of information provided for audit



We received a set of draft financial statements on commencement of our audit. We provided a listing of our information requirements within our Audit Dashboard file sharing system. This includes the dates we required information; information was generally supplied by the due date.

Underlying assessments for key financial areas including valuations, were of a consistent good quality. Corrections required to the financial statements were related to both financial reporting and service performance reporting. A list of corrected misstatements can be found in Appendix 2. Overall, management were supportive and engaged in assisting us with queries for themselves and their experts, particularly in key judgement areas.

3 Matters raised in the Audit Plan



In our Audit Plan of 20 September 2023, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
Accounting and valuation of property, plant and equipment	
<p>PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ from fair value.</p> <p>From our discussions with management to date, we understand that the District Council is making preparations to revalue its infrastructure assets for the year ended 30 June 2023.</p> <p>Roading and wastewater assets will be revalued internally, and peer reviewed by external experts.</p> <p>All other asset classes are not going to be subject to a complete revaluation for the current financial year.</p> <p>We expect management to have undertaken appropriate internal review of the asset data provided to the external valuers and perform an internal review of the draft valuation report for consistency with its own expectations and knowledge of the assets prior to these being submitted to audit for our review.</p>	<p>The District Council revalued its three waters infrastructure assets, roading assets and other waste assets at 30 June 2023. This resulted in the recognition of a \$29 million revaluation gain.</p> <p>The valuation for three waters infrastructure assets (water, wastewater and stormwater) was externally completed by Rationale Limited using the optimised depreciation replacement basis. Roothing and other waste assets valuation was completed by Utility Limited except for bridges which were valued by DCL Consulting.</p> <p>We confirmed the assumptions and methodology applied were appropriate, and that the valuation complies with relevant accounting and valuation standards.</p> <p>The valuations were accounted for correctly in the financial statements.</p>
Fair value assessment of property, plant and equipment (non-revaluation year)	
<p>The Council has classes of land and buildings, and operational assets that are outside of their revaluation cycle.</p> <p>Council will need to complete a fair value assessment to determine whether there is a material difference between their carrying amounts and their fair values. If this assessment identifies that there is a material difference in the carrying values of these asset classes, a full revaluation is required.</p> <p>In performing this assessment, Council will need to identify and apply relevant independent information to support its position.</p>	<p>We reviewed management's fair value assessments for land and buildings and parks and reserves assets at 30 June 2023.</p> <p>The indices adopted for fair value assessment of Land and Buildings was supported by an external review from Quotable Value Limited.</p> <p>We completed our own independent assessment. We agreed with management's assessment, that the carrying value was not materially different to the fair value at 30 June 2023.</p>

Audit risk/issue	Outcome
<p>This may include independent input from Council's valuers due to knowledge of market and industry factors as well as their knowledge of Council's assets.</p> <p>We encourage the Council to perform this assessment early so that if a revaluation is required, there is time to complete it without it impacting on the annual report process.</p>	
New accounting standard – First-time adoption of PBE IPSAS 41, <i>Financial Instruments</i>	
<p>As the Council is transitioning from PBE IPSAS 29, the transition may result in a number of significant changes.</p> <p>The main changes introduced by PBE IPSAS 41 are that the standard:</p> <ul style="list-style-type: none"> Introduces a new classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held. This could result in some instruments moving from amortised cost accounting to fair value accounting, or vice versa. Applies a forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing. Introduces a hedge accounting model that broadens the hedging arrangements in scope of the guidance and removal of the 80-125% effectiveness "bright line" test. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. Entities that adopt PBE IPSAS 41 have a choice of either adopting the new hedging model of PBE IPSAS 41, or continuing to apply the hedging model of PBE IPSAS 29. There are also new disclosure requirements as the standards setters believe additional information on risks such as credit risk are increasingly important to users of the financial statements. 	<p>We:</p> <ul style="list-style-type: none"> Reviewed the transition/first time adoption analysis prepared by the Council for reasonability. Reviewed the updated accounting policies, presentation and disclosure contained in the financial statements to ensure it is in accordance with the requirements of the standard. Reviewed the expected credit loss assessment for significant receivables and other financial assets. <p>We have confirmed that the transition does not result in material reclassification or remeasurement of financial assets.</p> <p>We are also satisfied that the updated accounting policies, presentation, and disclosure in the financial statements are in accordance with the requirements of the standard.</p>

Audit risk/issue	Outcome
<p>The Council will need to prepare an analysis of the classification of its financial instruments in terms of the standards and determine the necessary accounting and disclosure adjustments required.</p> <p>The Council will need to update its accounting policies and disclosures in the financial statements to reflect the adoption of the new standard. The 21J Local authorities model financial statements reflect the early adoption of this standard, and provide illustrative disclosures.</p>	
New accounting standard - Adoption of PBE FRS 48, <i>Service Performance Reporting</i>	
<p>PBE FRS 48, <i>Service Performance Reporting</i>, replaced that part of PBE IPSAS 1, <i>Presentation of Financial Statements</i>, that deals with service performance reporting requirements and is effective for annual reporting periods beginning on or after 1 January 2022, that is, for the Council, it is for the year ended 30 June 2023.</p> <p>The objective of the standard is “to establish principles and requirements for an entity to present service performance information that is useful for accountability and decision-making purposes in a general purpose financial report”. PBE FRS 48 requires an appropriate and meaningful mix of performance measures and/or descriptions, including, where appropriate, measures of both the goods and services provided and of what has been achieved in the Council’s areas of responsibility.</p> <p>In addition, PBE FRS 48 imposes additional disclosure obligations on entities. For example, paragraph 44 requires an entity to “disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information reported in accordance with this Standard that are relevant to an understanding of the entity’s service performance information”. Further if the Council changes what it reports as service performance information compared to the previous year, then PBE FRS 48 requires the Council to explain the nature of the changes and their effect.</p>	<p>During the audit, we reviewed Council’s compliance with the requirements of PBE FRS 48 and provided specific feedback to Council to improve the PBE FRS 48 disclosures in order to meet the requirements of the accounting standard.</p> <p>The disclosure obligations of PBE FRS 48, as it related to judgements that have the most significant effect on the selection, measurement, aggregation, and presentation of service performance information reported, required enhancement.</p> <p>The challenges with the reporting of service performance measures that aligned with the approved long-term plan and tabled annual report required additional disclosure to ensure that the service performance information reported was useful for accountability and decision-making purposes.</p> <p>We assessed that the final service performance information in the annual report meets the requirements of PBE FRS 48.</p>

Audit risk/issue	Outcome
Significant capital projects and work in progress	
<p>The Council's long-term plan (LTP) included capital projects, such as the Cromwell wastewater and Lake Dunstan supply upgrades.</p> <p>In the prior financial year, we observed that these projects relate to the water supply pipeline and wastewater pipeline from Clyde to Alexandra. They are in the process of being constructed concurrently, with a funding application submitted to the government as a shovel ready project.</p> <p>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 effect on the financial statements, including:</p> <ul style="list-style-type: none"> • assessing the nature of costs and either capitalising these as work in progress, or recognising these as expenses; • identifying asset components and assigning appropriate useful lives to these components; and • identifying the appropriate date of capitalising the asset, transferring costs from work in progress to asset additions and the commencement of depreciation of the asset. 	<p>The Council completed several capital projects during the financial year, including the Lake Dunstan water supply at Clyde and stage one of the Clyde wastewater project. Our audit procedures focused on a review of:</p> <ul style="list-style-type: none"> • the reasonableness of assumptions and judgements used by management in classifying costs as either capital or operational; • whether the capitalisation point for completed assets was appropriate, including transfers from work in progress; • the reasonability of depreciation rates and useful lives applied to asset components; • the point at which depreciation commenced; and • the appropriateness of disclosures included within the financial statements, including those relating to capital commitments. <p>We reviewed the spend achieved against the approved capital programme to confirm the completeness of asset additions.</p>
The 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.</p> <p>Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to treat this as a significant risk on every audit.</p>	<p>To address this risk, during the audit we:</p> <ul style="list-style-type: none"> • tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • reviewed accounting estimates for bias and evaluated if there was any risk of material misstatement due to fraud; and • evaluated the business rationale for any significant transactions that were outside the normal course of business, or that otherwise appeared to be unusual, including those with related parties. <p>We found no indications of management override that would result in a material misstatement in the financial statements due to fraud.</p>

Audit risk/issue	Outcome
Affordable Waters Reform	
<p>The Affordable Waters Reform programme (the Reform) is expected to result in significant structural changes to the management, funding and ownership of water supply, wastewater, and stormwater assets in the local government sector.</p> <p>The Government has recently announced a number of changes to the reform. On 13 April 2023, the Government outlined changes to the number of water services entities and a staggering of their establishment dates starting from early 2025, with all the water services entities to be established by 1 July 2026. The timing of the transfer of assets and liabilities is therefore uncertain until amendments to existing legislation are passed.</p> <p>The Bill to enable the transfer of three waters related assets and liabilities to the water services entities is currently with the select committee and will need to be passed to enable water assets to transfer to the related water entity.</p> <p>The timing of the legislation through Parliament will impact the 30 June 2023 annual report.</p> <p>The Council should ensure that sufficient disclosure about impact of the reform (to the extent that the impact is known) is included in the annual report.</p>	<p>Given the significance and uncertainty of the impacts from the proposed reforms, the District Council disclosed the matter in the notes to the financial statements. We reviewed the disclosure and concluded it was appropriate.</p> <p>Given the significance of the matter to readers of the annual report, we included an emphasis of matter paragraph in the audit report drawing readers attention to the District Council's disclosure.</p>
Drinking water quality performance measures	
<p>Providing safe drinking water is a core function of the Council and reporting how Council has performed in respect of this function in the annual report is important performance information.</p> <p>The regulatory regime in place over the safety of drinking water has transitioned in the current year from the Drinking Water Quality Standards (DWS) to the new Drinking Water Quality Assurance Rules (DWQARs) which came into effect on 14 November 2022.</p> <p>Performance measures about compliance with the DWS are currently mandated by the Department of Internal Affairs who have issued mandatory performance measures that are required to be reported against in Council's annual report.</p> <p>There are currently no similar performance measures with respect to the new DWQARs.</p>	<p>The Council followed the Department of Internal Affairs (DIA) guidance in measuring performance against all mandatory water quality measures. From 1 July 2022 to 31 October 2022 the Council measured drinking water compliance against the New Zealand Drinking Water Standards (DWS). From 1 November 2022 to 30 June 2023 drinking water quality was measured against the new Drinking Water Quality Assurance Rules (DWQARs).</p> <p>An external expert, Beca Limited, assessed the District Council's compliance with the different mandatory drinking water measures, that applied for the 2022/23 year.</p> <p>The expert concluded that the Council's water supply did not fully achieve its target to fully comply with the provisions of the Drinking Water Standards for New Zealand 2005 (Revised 2018)</p>

Audit risk/issue	Outcome
<p>Despite this it is important that the Council includes appropriate performance information about their compliance with the new DWQARs.</p> <p>This performance information will be subject to audit and therefore it is important that Council is able to support the performance results that they report.</p>	<p>and the revised Drinking Water Quality Assurance Rules (DWQARs) applicable to the latter half of the financial year.</p> <p>We obtained a representation, from Beca Limited, that the assessment was completed in accordance with the relevant drinking water standards. We assessed that they were suitably qualified and independent from Council. We also confirmed that the underlying data and assumptions used, were complete and reasonable and appropriate disclosure was included in the annual report.</p>

4 Assessment of internal controls



The District Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. During our audit, we considered the internal controls relevant to preparing the financial statements and the service performance information. We reviewed internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings relate to our normal audit work, and may not include all weaknesses in internal controls.

4.1 Control environment

The control environment reflects the overall attitudes, awareness, and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy and is the context in which the accounting system and control procedures operate. Management, with the oversight of the District Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures, and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the District Council and management to establish and maintain effective management procedures and internal controls.

No matters have come to our attention that we consider would affect the culture of honesty and ethical behaviour of the District Council. The elements of the control environment provide an appropriate foundation for other components of internal control.

4.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented, and maintained by the District Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

The controls in each system are capable collectively of preventing or detecting and correcting material misstatements.

We have set out the status of internal control matters from previous years' reports to the District Council in Appendix 1.

5 Other matters identified during the audit



Below we outline the other matters we identified during the audit and any relevant recommendations for improvement.

5.1 Performance Reporting Controls

Recommendation

The District Council should establish internal controls around the performance reporting process. This should include at a minimum:

- Review of the Annual Plan to the approved Long-Term Plan for accuracy, completeness and consistency of performance measures and targets;
- Review of the Annual Report Template to the approved Annual Plan at the beginning of the financial year to ensure that supporting information is collated and reported on the correct performance targets throughout the financial year; and
- Tracing of selected performance measures to supporting documentation provided by technical or support personnel to ensure that the performance measure achievement is accurately reported.

Finding

The approved Annual Plan for the year ended 30 June 2023 was incorrectly based on the second year of the Long-Term Plan for the period 2018-2021, and not the Long-Term Plan applicable to 2021-2024.

Subsequently, the mandatory performance measures required by the Department of Internal Affairs and performance measures agreed with the community for the 2021-2024 Long-Term Plan period were not included in the annual report.

This deficiency in reporting was corrected by Council and additional disclosure provided to the Annual Report.

Management comment

We agree with this comment and acknowledge there was an error in the performance measures incorporated into the annual plan. We have put a review process in place to ensure that the long-term measures are included so that we're reporting accurately.

5.2 Completeness of Infrastructure Assets

Recommendation

The District Council should ensure that three waters asset additions are recorded completely in the Assetic system. Regular reconciliation should be conducted between the contractors schedule of completed projects and the Assetic system, to identify any asset omissions, duplications or other errors.

Finding

During our review of the three waters valuation report completed by Rationale, we noted that the valuer identified the following assets that were omitted from the Assetic system:

- Lake Dunstan Water Supply Treatment Plant - completed assets worth \$5.1 million were omitted from the Assetic Asset Register and identified by the valuer through reconciliation of the system to the contractors list of completed assets. As a result, these were added externally to the valuation (this covered general pipework, general electrical and communications assets, and general earthworks).
- Cromwell and Alexandra Wastewater Treatment Plants - assets totalling \$502k were omitted from the Assetic system. These were also identified by the valuer and added to the valuation report as a balancing line.

The Assetic system forms the basis of the valuation and omissions from this system may impact the completeness of infrastructure assets disclosed in the annual report.

Management comment

The inclusion of Lake Dunstan Water Supply Treatment Plant assets in the Assetic system was purely a timing issue related to the project completion date and getting the required information from the contractor to input into the Assetic system. This exclusion was identified to the valuer by CODC staff to ensure that it was included in the valuation albeit outside of the Assetic system.

There will be occasions when this occurs due to timing when projects are being completed in May and June, and as long as these are identified and the required information is provided to the valuer for the valuation and then added to the Assetic data as soon as practicably possible, we do not believe this to be an issue.

Independent site valuations were undertaken for the Cromwell and Alexandra Wastewater Treatment Plants by Beca specialist wastewater experts. This was a recommendation from the previous valuation and was part of a continuous improvement process to ensure these complex sites were appropriately recorded and valued. These were prepared to be incorporated into Assetic and the valuation and this was again a timing issue.

5.3 Water Connections Report

Recommendation

The water connections report should be run at year end to ensure the accuracy of water connections disclosed in, or utilised in the calculation of other, performance measures.

Finding

Due to limitations on the information system utilised, the report with the number of water connections (wastewater and drinking water) can only be run as at the current date. The system does not allow the user to set parameters to run it at a particular date.

Complaints measures in the performance report are recorded per 1,000 connections. If the report is run in August (as was the case for 2023) but relates to information dated the 30 June, this could result in the disclosed measure being incorrect.

Additional audit work was required to determine the changes in connections between year end and the date of the report which could be avoided if the report is run annually at year end.

Management comment

This has been addressed with the report now programmed to run on 30 June each year.

5.4 Reconciliation of fixed asset register to financial statements

Recommendation

A reconciliation of the value of property, plant and equipment contained in the fixed asset register and the value reported in the annual report should be undertaken.

Finding

The cost and accumulated depreciation values contained in the fixed asset register and reported in the financial statements do not agree. A variance of \$1,389 million and \$1,380 million respectively were identified.

Management comment

We acknowledge and accept this recommendation. This remains on the work programme, but reconciliation due to staffing constraints may not reach completion in time for the 23/24 Annual Report to verify opening balance adjustments to accumulated depreciation.

6 Public sector audit



The District Council is accountable to Parliament, their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the District Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the District Council carrying out its activities effectively and efficiently;
- the District Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the District Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by the District Council or by one or more of its members, office holders, or employees.

We have no other matters to report in relation to the areas above.

7 Useful publications



Based on our knowledge of the District Council, we have included some publications that the Council and management may find useful.

Description	Where to find it
Performance reporting	
Public organisations are responsible for reporting their performance to Parliament and the public in a way that meaningfully reflects their organisation's aspirations and achievements. The Auditor-General published a discussion paper that explores five areas for improvement in performance reporting.	On the Office of the Auditor-General's website under publications. Link: The problems, progress, and potential of performance reporting
The Office of the Auditor-General, the Treasury and Audit New Zealand have jointly prepared good practice guidance on reporting about performance. The guidance provides good practice examples from public organisations in central government. Those working in other sectors may also find this useful.	On Audit New Zealand's website under good practice. Link: Good practice in reporting about performance — Office of the Auditor-General New Zealand (oag.parliament.nz)
Local government risk management practices	
The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management.	On the Office of the Auditor-General's website under publications. Link: Observations on local government risk management practices
Public accountability	
Public accountability is about public organisations demonstrating to Parliament and the public their competence, reliability, and honesty in their use of public money and other public resources. This discussion paper explores how well New Zealand's public accountability system is working in practice.	On the Office of the Auditor-General's website under publications. Link: Building a stronger public accountability system for New Zealanders

Description	Where to find it
Setting and administering fees and levies for cost recovery	
This good practice guide provides guidance on settings fees and levies to recover costs. It covers the principles that public organisations should consider when making any decisions on setting and administering fees and levies. It also sets out the matters public organisations should consider when calculating the costs of producing goods or providing services and setting charges to recover those costs.	On the Office of the Auditor-General's website under publications. Link: Setting and administering fees and levies for cost recovery: Good practice guide
Managing conflicts of interest involving council employees	
This article discusses findings across four councils on how conflicts of interest of council employees, including the Chief Executive and staff, are managed.	On the Office of the Auditor-General's website under publications. Link: Getting it right: Managing conflicts of interest involving council employees
Establishing a new "public entity"	
This document is for people making policy decisions about establishing a new public entity. It sets out questions to help you consider what accountability requirements a new public entity should have.	On the Office of the Auditor-General's website under publications. Link: Accountability requirements to consider when establishing a new "public entity"
Covid-19 implications for financial reporting and audit in the public sector	
Audit New Zealand Executive Director, Steve Walker, and Head of Accounting, Robert Cox, joined an online panel hosted by Victoria University of Wellington and the External Reporting Board. They discussed the effects of Covid-19 and the economic recovery on financial reporting and audit in the public sector.	On Audit New Zealand's website under good practice. Link: Covid-19 page Link: Webinar
Model financial statements	
Our model financial statements reflect best practice we have seen. They are a resource to assist in improving financial reporting. This includes: <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and 	Link: Model Financial Statements

Description	Where to find it
<ul style="list-style-type: none"> including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	
Tax matters	
As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.	On Audit New Zealand's website under good practice. Link: Tax Matters
Client substantiation file	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a collection of resources called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a toolbox to help you collate documentation that the auditor will ask for.</p>	On Audit New Zealand's website under good practice. Link: Client Substantiation File
Sensitive expenditure	
The Auditor-General's good practice guide on sensitive expenditure provides practical guidance on specific types of sensitive expenditure, outlines the principles for making decisions about sensitive expenditure, and emphasises the importance of senior leaders "setting the tone from the top". It also describes how organisations can take a good-practice approach to policies and procedures for managing sensitive expenditure.	On the Office of the Auditor-General's website under good practice. Link: Sensitive expenditure
Conflicts of interest	
<p>The Auditor-General has published guidance on conflicts of interest. A conflict of interest is when your duties or responsibilities to a public organisation could be affected by some other interest or duty that you have.</p> <p>The material includes a printable A3 poster, an animated video on predetermination and bias, gifts and hospitality, and personal dealings with a tenderer. There is also an interactive quiz.</p> <p>These can all be used as training resources for your own employees.</p>	On the Office of the Auditor-General's website under 2019 publications. Link: Conflicts of interest

Description	Where to find it
Severance payments	
<p>Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny.</p> <p>The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payment to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.</p>	<p>On the Office of the Auditor-General's website under 2019 publications.</p> <p>Link: Severance payments</p>
The Auditor-General's report on the results of recent audits	
<p>The Office of the Auditor-General publishes a report on the results of the District Council each cycle of annual audits for the sector.</p>	<p>On the Office of the Auditor-General's website under publications.</p> <p>Links: Central Government 2019/20 audits</p> <p>Tertiaries 2019 audits and what we saw in 2020</p> <p>Local government 2019/20 audits</p> <p>DHB 2019/20 audits</p> <p>Port company 2019/20 audits</p>
Good practice	
<p>The Office of the Auditor-General's website contains a range of good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. 	<p>On the Office of the Auditor-General's website under good practice.</p> <p>Link: Good practice</p>

Description	Where to find it
Procurement	
<p>The Office of the Auditor-General are continuing their multi-year work programme on procurement.</p> <p>They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.</p> <p>Whilst this is focused on local government, many of the questions are relevant to all types of public sector entities.</p>	<p>On the Office of the Auditor-General's website under publications.</p> <p>Links: Strategic suppliers: Understanding and managing the risks of service disruption Getting the best from panels of suppliers Local government procurement</p>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Fully Depreciated Assets and depreciation rates		
Management should review the accounting policy for its assets to ensure that it is consistent with the depreciation rates in the fixed asset register. Management can also perform a review of the utilisation of their fully depreciated assets and remove them from the fixed asset register, if they are no longer in use.	2021	No progress At 30 June 2023, fully depreciated assets with a gross carrying value of \$6.7 million were identified in the fixed asset register.
Update to the sensitive expenditure policy		
The updates to good practice for sensitive expenditure from Office of the Auditor-General guidelines should be incorporated into the sensitive expenditure policy.	2021	No progress The sensitive expenditure and travel policies recommendations will be actioned when these policies are due for renewal (June 2024). This financial year Council adopted the "Policies Policy" that outlines the approach and process for renewal of council policies.
System password settings		
Previously we noted that certain user authentication password settings were not consistent with the Generally Accepted Leading Practice (for example, the minimum length of a password is six characters and the password complexity requirement is disabled). Weak password settings increase the risk of unauthorised access to Council information systems.	2021	In progress We noted no change during the current period. Management noted that this is part of the Cybersecurity Plan 2022-2025 to move to 14-character passwords for all staff and all information system. This was approved through the annual plan but has been delayed due to the telephony and computer renewal project delays. This forms part of the Password Improvement Project. New target date is before the end of 2023.

Implemented or closed recommendations

Recommendation	First raised	Status
Urgent		
Transfer and capitalisation of completed WIP (Work in Progress) to PPE (Property, Plant and Equipment) on a timely basis		
Management should perform a review to identify WIP as and when they are completed and capitalise the amount to PPE on a timely basis.	2021	Closed
Necessary		
Revalue all assets within a class		
When a valuation is undertaken, it is necessary for all assets within a class of property, plant, and equipment to be revalued.	2022	Closed
Councillor not included in interest register		
The District Council needs to review the interest register to ensure it is complete.	2022	Closed
Beneficial		
Development contributions revenue recognition		
Implement a process whereby revenue recognised in advance is appropriately recorded in the annual report.	2020	Closed
Broader audit risk assessments		
Management should consider establishing a contract management policy, implementing the improvement recommendations from the valuers for asset management and ensuring that the members' interest declaration register is consistent with the employee interest declaration register in terms of level of detail.	2021	Closed Management accepts the risk.

Appendix 2: Corrected misstatements

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Development Contribution	1				97,026
Other revenue					(97,026)
Audit fees	2				30,625
Creditors			(30,625)		
Total		-	(30,625)	-	30,625

Explanation of uncorrected misstatements

- 1 Incorrect classification of other revenue as development contribution revenue.
- 2 Recognition of audit fees in line with signed audit proposal letter.

Corrected disclosure deficiencies

During the audit, we identified a number of disclosure deficiencies. They included the following:

Detail of disclosure deficiency
Operating Leases To correctly account for the TIMG Lease in Operating Leases, increase in the Lessee 1-5 years line item by \$219,004. Alexandra Retail Holding Lease corrected to 999 years, including the non-cancellable lease period.
Trade and other payables (Note 30) Corrected prior year reported balances to agree to prior year annual report. Corrected reference made to "Group", not applicable to CODC. Updated note references for prior year figures. Updated note 30 for PBE IPSAS 41 calculations.
Forestry Assets Alexandra Radiata PY hectares corrected to agree to prior year annual report.

Detail of disclosure deficiency
Note 5 Valuation Gains and Losses Corrected reference to note 15 instead of note 22.
Note 12 Other Financial Assets Corrected prior year deposits maturing 3-12 months to \$nil.
Note 8 Cost of Sales and Other Expenses Corrected to add a description of the nature of other services performed by Audit New Zealand per PBE IPSAS 1.116.2. Corrected wording typo error.
Subsequent Events Note Corrected to include a statement estimate of the financial effect or that such an estimate cannot be made as per PBE IPSAS 40.
Assets Held for Sales Corrected disclosure of assets held for sale (incorrect classification).
Note 19 Property, Plant and Equipment Narration and typo errors corrected. Updated useful lives for library books. Corrected reclassification error of \$11,352 from adjustments to additions for the year. Corrected omitted disclosures relating to the: <ul style="list-style-type: none"> • methods and significant assumptions applied in estimating the fair value of Infrastructure Assets; • the extent to which the assets' fair values were determined directly by reference to observable prices in an active market, or recent market transactions on arm's length terms, or were estimated using other valuation techniques; and • disclosures about significant or critical judgements, significant forward-looking assumptions, or other sources of estimation uncertainty.
Salary banding Corrected FY2023 and FY2022 error on banding.
Investment Property Corrected prior year comparatives to agree to signed annual report.
Note 13 Receivables Narration inconsistencies on expected credit losses on rates receivables corrected.
Accounting Policies Included reference to breach of statutory deadline (not known at the time of preparation of financial statements).

Corrected performance reporting misstatements

Detail of misstatement
<p>Other Disclosures</p> <p>Numerous disclosure misstatements or deficiencies have been noted in terms of wording and inclusion of items in the SSP. Refer to Council disclosure within the annual report.</p>
<p><i>Service Performance Information</i> not clearly identified in the Annual Report, reported in the “our activities” section, along with the story and the funding impact statements for each activity. The new amendments section of Accounting Policy 2 does not refer to where the service performance information is.</p> <p>Disclosure of judgements around:</p> <ul style="list-style-type: none"> • Estimating road roughness. • Measuring water quality. • Surveys.
<p>Road Safety Measure</p> <p>Number of fatal and serious crashes, FY2023 corrected from six to four and, FY2022 corrected from four to nine, to agree to prior year annual report.</p>
<p>Water Customer Satisfaction Measure</p> <p>Corrected total number of customer complaints to <u>< 13</u>.</p>

Appendix 3: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the District Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the District Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The District Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audit, we have no relationship with, or interests in, the District Council.</p>
Fees	<p>The audit fee for the year is \$156,625, as detailed in our Audit Proposal Letter.</p> <p>No other fees have been charged in this period.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year.</p>



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