

Audit plan

Thames-Coromandel District Council

For the year ending 30 June 2019

Audit plan

I am pleased to present our Audit Plan for the audit of Thames-Coromandel District Council (Council) for the year ending 30 June 2019. The purpose of this audit plan is to discuss:

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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 these with me.

Yours sincerely



Athol Graham
Appointed Auditor
1 March 2019

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. These will be the main focus areas during the audit.

Audit risk/issue	Our audit response
Response to service requests - Water and wastewater	
<p>We understand management are currently enhancing systems and controls to better manage contractor performance, including confirming the contractors reported response times to service requests for water and wastewater callouts are accurate and verifiable. This will enable management to better monitor contractor performance to ensure value for ratepayers.</p> <p>Response times to callouts are also reported on in the Annual Report and therefore the information used for contract management purposes provides the basis for this reporting.</p>	<p>We will follow up on the improvements made by management on contract management systems and controls. We will ensure that reported performance on response times is based on independent and verifiable data.</p>
Property plant and equipment valuations	
<p>Council have historically valued certain asset classes including lands under roads on an annual basis. Management are currently considering revising the valuation policy including the frequency of valuation cycles and a decision to no longer value land under roads.</p> <p>We understand that a paper will be presented to the Council covering the various options and risks.</p> <p>A key principle in the standard is that a change in policy results in better information to readers of the financial statements. If Council changes there accounting policy they will need to address the requirements of PBE IPAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>	<p>We will review any changes in accounting policy and ensure they are adequately accounted for and disclosed in accordance with PBE IPSAS 3.</p> <p>If Council proceeds with the revaluation of certain asset classes we will review the valuation methodology used to ensure it complies with generally accepted accounting practice, and assess whether the District Council has correctly accounted for the valuation in its financial statements.</p> <p>For those asset classes carried at fair value that are not revalued this year we will review the District Council’s assessment of whether there are any significant differences between the carrying amount and fair value.</p>

Audit risk/issue	Our audit response
<p>The accounting standards, specifically PBE IPSAS 17: <i>Property, Plant and Equipment</i>, requires that valuations are carried out with enough regularity to ensure that the carrying amount does not differ materially from its fair value while PBE IPSAS 16: <i>Investment Property</i>, requires the District Council to revalue their assets annually.</p> <p>If the District Council revalues this year then they will need to assess the reasonableness of assumptions applied by management and the valuer. Variations in key assumptions can have a significant impact on the value of the Council's assets and the depreciation charge which is used in determining rates levels.</p> <p>For assets not being revalued the District Council will need to formally assess whether a revaluation is required to ensure the carrying value of these assets fairly reflects their fair value.</p> <p>It is important that the District Council makes this assessment at an early stage as a full valuation may require a significant amount of time to complete.</p>	
Development Contributions (DC) in advance	
<p>The Council entered into a deed with a developer in 2004 whereby reserve assets were subsequently vested to Council in anticipation of Development Contributions on a development in Whitianga. Council's recognises a provision in its balance sheet for the outstanding lots under this agreement.</p> <p>We understand that management have undertaken a comprehensive review of the systems and records for this arrangement to ensure that the reported provision is accurate and remains up-to-date going forward.</p>	<p>In order to confirm the reasonableness of the provision we will review Council's records, calculation and reconciliation to outstanding lots under the agreement.</p>

Audit risk/issue	Our audit response
Coastal Management Plan (CMP)	
<p>Some of the District Council's catchment is prone to being impacted by extreme weather events, particularly when in combination with abnormally high tides. Infrastructure in at risk areas may be exposed to damage and possible impairment or changes in useful lives.</p> <p>The District Council has allocated budget to prepare a CMP so that Council is in a position to make informed planning decisions in conjunction with any Government policy on climate change.</p>	<p>We will keep up to date with the development and implications of Council's CMP and ensure that recognition and reporting implications if any are adequately reflected in Council's Annual Report.</p>
Water schemes procurement	
<p>In order to ensure compliance with water quality standards council has commenced a capital works programme across its various water treatment plants. Capital works on the Whitianga treatment plant commenced this year with other schemes planned over the next few years.</p> <p>Given the size and nature of the programme there is a risk that the costs and works will not be correctly accounted for. There is also a risk that the programme will not be delivered on time and in budget.</p>	<p>We will update our understanding of progress to date on the overall programme, including and how costs have been accounted for. We will ensure that the Annual Report appropriately reflects capital works completed, operational costs incurred and commitments entered into as at balance date.</p>
Presentation of performance information in the annual report	
<p>We understand that management is revisiting the layout and presentation of the performance reporting information contained in the annual report.</p> <p>Improvements in this area will make the Annual Report clearer to readers.</p>	<p>We will perform an early review of work done on the layout and presentation of the performance reporting and work with management to ensure that reported performance information is clearer for readers.</p>
The risk of management override of internal controls	
<p>Management is in a unique position to perpetrate fraud through having the ability to manipulate accounting records and prepare fraudulent financial statements, by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in an inherent risk of material</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • discussing with management and the Council their approach to reinforcing proper financial reporting and compliance with Generally Accepted Accounting Practice; • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;

Audit risk/issue	Our audit response
<p>misstatement due to fraud, which auditing standards require us to consider in every audit.</p> <p>The Council's role is to ensure that management report fairly and objectively to enable informed decisions by interested stakeholders. This would be through the setting of clear expectations of management about financial transparency and adherence to Council's policies, processes and delegations.</p>	<ul style="list-style-type: none"> • reviewing accounting estimates and provisions to ensure these are reasonable and supportable, with no indications of bias; • reviewing the appropriateness and application of Council's accounting and delegated financial authority policies; and • evaluating any unusual or one-off transactions outside of the normal course of business, including those with related parties.

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 in relation to 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 in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

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

Our audit process



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



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



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.



We update our understanding of internal controls relevant to the audit. This includes reviewing the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is done during the initial audit visits. 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.



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



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



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

Materiality

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

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

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

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on 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.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

Enhancing year-end processes

The year-end financial statement close process and the preparation of the annual report requires a large number of 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 run to smoothly and we will work with management to achieve this through bringing forward the timing of audit procedures.

Substantive audit procedures are traditionally performed after the year-end. Where possible, we will aim to bring audit procedures earlier in the year. This will be focused on:

- testing year-to-date transactions for capital and operational expenditure;
- review of management estimates and technical assessments;
- review of property, plant, and equipment fair value assessments and WIP assessments;
- testing year-to-date non-financial performance; and
- reviewing pro-forma financial statements (including notes) and statements of service performance.

Completion of these tests earlier in the year should allow for more timely identification and resolution of errors or issues.

This testing will be completed during the interim audit and a pre-final audit. This requires us to have the right information available during this visit to enable us to complete this work. We will work with management to facilitate getting the information required at the right time. We will communicate with management if information is not available as agreed, including any impact on the year-end audit.

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 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.

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about 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 considering information and in forming conclusions.

Exercising 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 of your requirements to comply with laws and regulations.

Our approach involves first assessing 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:

- Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by 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 as a result of any act or omission by Council or by one of more of its members, office holders, or employees.

Additional areas of interest across the public sector

Parliament's Finance and Expenditure Committee are interested in understanding whether the public sector has effective corruption prevention and detection processes in place. As a result, the Office of the Auditor-General (OAG) is gathering initial information relating to how public entities address these risks, including what processes are used to prevent bribery and corruption. This work will be used to inform whether further investigation is undertaken by the OAG.

We will discuss with management and Council what processes are in place to reduce the risk of bribery and corruption at the District Council. Our findings will be reported to the OAG.

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”.

Reports to Council



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

We will also follow up on your progress in responding to 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:

Athol Graham	Appointed Auditor
Jo Smaill	Engagement Quality Control Review Director
Robert Sutherland	Audit Manager
Brandan Botha	Assistant Manager
Clive Shazell	Information Systems Auditor
Jason Biggins	Tax Director

The Engagement Quality Control Review (EQCR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQCR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team.

They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQCR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

Timetable



Our proposed timetable is:

8 April 2019	First interim audit begins
27 May 2019	Second interim audit begins (to be confirmed if required)
31 May 2019	Draft interim management report issued
13 June 2019	Management comments on interim report received
14 June 2019	Final interim management report issued (to be included in the agenda papers for A&R committee meeting)
5 September 2019	Draft financial statements and Statements of Service Performance (SSP) available for audit (including notes to the financial statements) with actual year-end figures
9 September 2019	Final audit begins
27 September 2019	Final financial statements and SSP available, incorporating all the amendments agreed to between us
4 October 2019	Verbal audit clearance given
4 October 2019	Draft final detailed management report issued
4 October 2019	Annual report available, including any Chair's and Chief Executive's overview or reports
11 October 2019	Management comments on draft final management report received
15 October 2019	Final detailed management report issued
30 October 2019	Audit opinion – final Council meeting before statutory deadline

Expectations



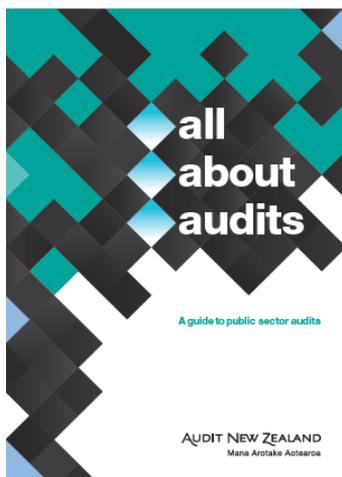
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

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 financial statements, 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, 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 explain what to expect from your audit:



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 advising them of emergency evacuation procedures and how to report any health and safety issues.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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