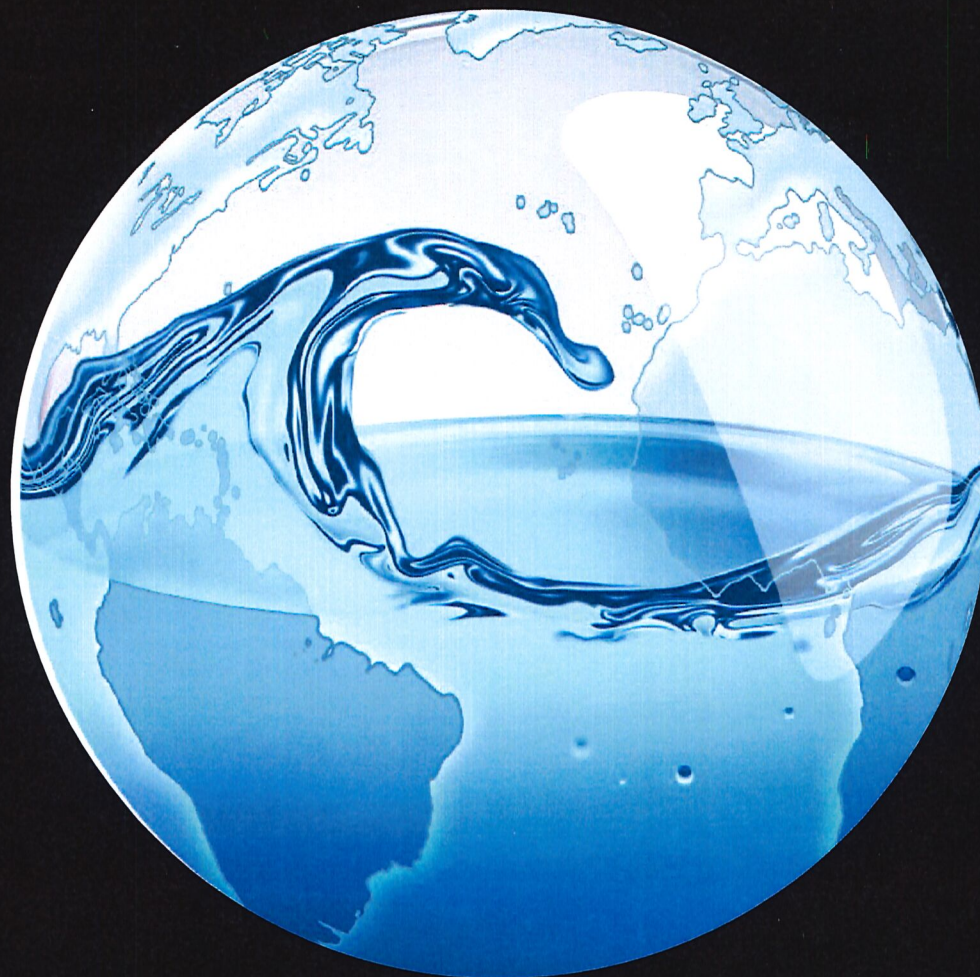


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Kaipara District Council

Planning Report to the Audit, Risk and Finance Committee
for the year ended 30 June 2020

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A. Partner introduction

Thank you for the opportunity to present our audit plan for the financial statement audit of Kaipara District Council for the year ending 30 June 2020.

This report is designed to outline our respective responsibilities in relation to the audit, to present our audit plan and to facilitate a two-way discussion on the plan presented. Our report includes:

- Our audit plan, including key areas of audit focus and our planned procedures; and
- Key accounting, regulatory and corporate governance updates, relevant to you.

We have an evolving audit plan that is established with input from management. The audit plan is tailored to Kaipara District Council's environment and revised throughout the year to adjust for business developments, additional relevant matters arising, changes in circumstances and findings from activities performed.

This plan is intended for the Audit, Risk and Finance Committee (and other Council members) and should not be distributed further.

We appreciate the opportunity to serve Kaipara District Council.

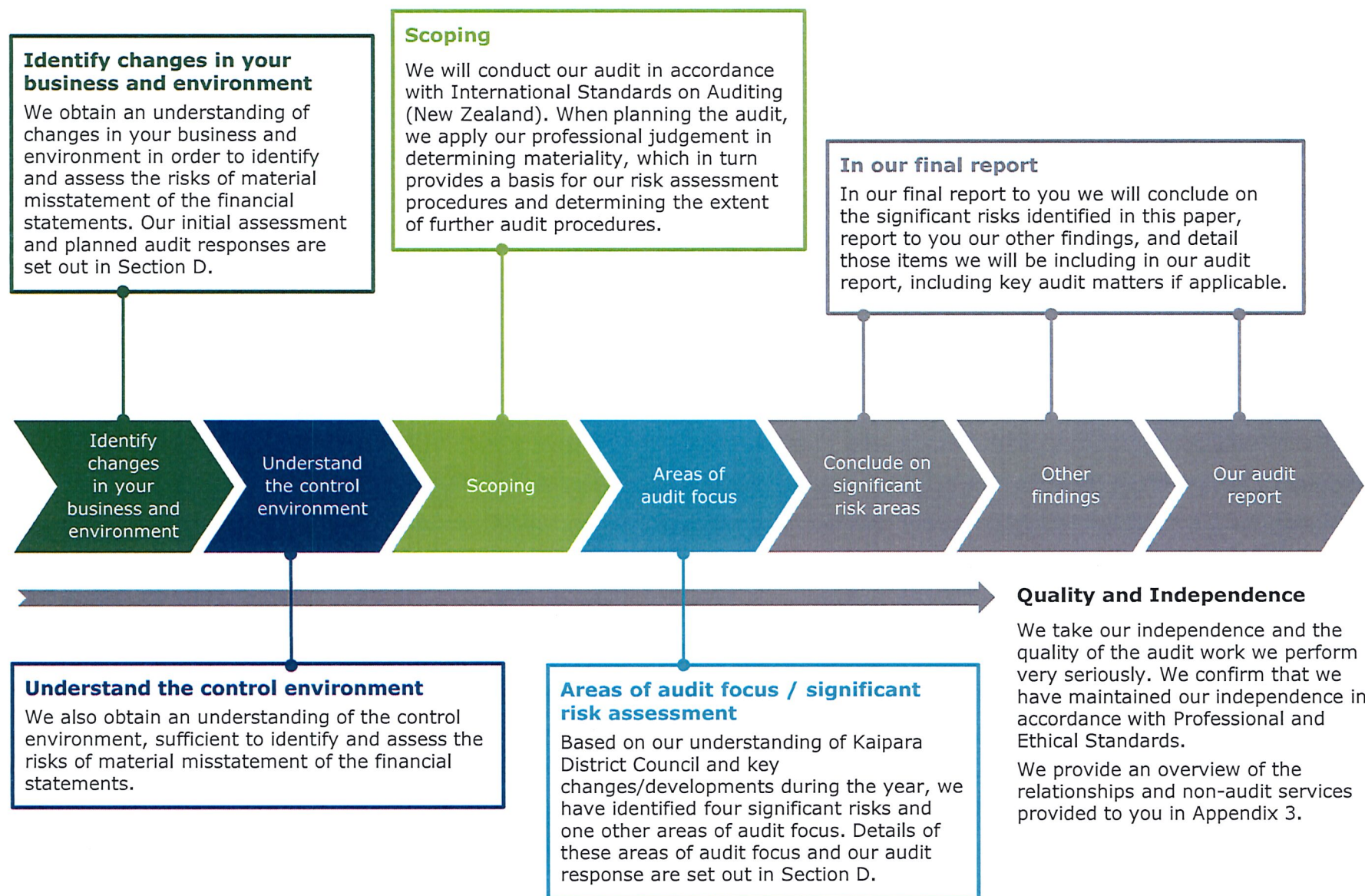
We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.



**Bryce Henderson, Partner
for Deloitte Limited
Auckland | 26 May 2020**



B. Our audit explained – a tailored approach



C. Identifying the areas of audit focus



Identification of audit risks

Our audit approach is underpinned by the identification of relevant audit risks and tailoring appropriate audit responses to address those risks. We consider a number of factors when deciding on the significant areas of audit focus, such as:

- the risk assessment process undertaken during the planning phase of our engagement;
- the impact of Covid-19 on the financial statement line items;
- our understanding of the business risks faced by Kaipara District Council;
- discussions with management during the course of our audit;
- the significant risks and uncertainties previously reported in the financial statements, including any NZ PBE IPSAS IAS 1 critical accounting estimates or judgements;
- our assessment of materiality; and
- any changes in the business and the environment it operates in since the last annual report and financial statements;

The next page summarises the significant risks and other areas that we will focus on during our audit.

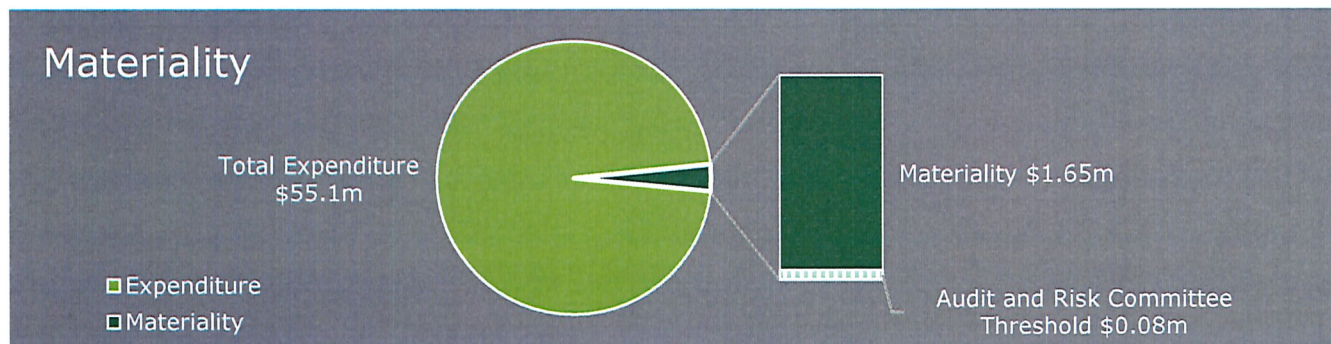
We continually update our risk assessment as we perform our audit procedures, so our areas of audit focus may change. We will report to you on any significant changes to our assessment as part of our final report to the Audit, Risk and Finance Committee.

Determining materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Our quantitative preliminary materiality for the 2020 audit as shown below is based on total expenditure per the 2020 annual plan. This is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. We will update our preliminary materiality assessment once actual total expenditure for the 2020 year is determined.

The extent of our procedures is not based on materiality alone but also on local considerations of subsidiaries and divisions of Kaipara District Council, the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.



Although materiality is the judgement of the audit partner, the Audit, Risk and Finance Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.



D. Areas of audit focus – dashboard

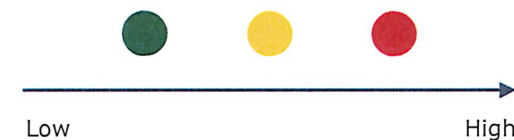
Area of audit focus	Significant risk	Fraud risk	Planned controls testing approach	Level of management judgement required
Management override of controls	✓	✓	D+I	N/A
Revaluation of infrastructure assets	✓	✗	D+I	●
Legislative compliance: rates revenue	✓	✗	D+I OE	●
Development contribution revenue	✓	✓	D+I	●
Impact of Covid-19	✗	✗	N/A	●
Sector wide area of focus	✗	✗	D+I	●

Planned approach to controls

D+I: Testing of the design and implementation of key controls

OE: Testing of the operating effectiveness of key controls

Level of management judgement required



D. Areas of audit focus



Area of audit focus	Our approach
Management override of controls We are required to design and perform audit procedures to respond to the risk of management's override of controls.	<p>We plan to:</p> <ul style="list-style-type: none">• Understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements.• Test the appropriateness of a sample of journal entries and adjustments and make enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments.• Review accounting estimates for bias that could result in material misstatement due to fraud, including assessing whether the judgements and decisions made, even if individually reasonable, indicate a possible bias on the part of management.• Perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.• Obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment.



D. Areas of audit focus



Area of audit focus

Our approach

Revaluation of Infrastructure Assets

The Council accounts for revaluations of infrastructure assets on a class of asset basis. The asset classes include roads, land under roads, water reticulation, wastewater reticulation, stormwater systems and flood protection assets. Land associated with the wastewater system (particularly at Mangawhai) is also treated as a separate class of infrastructure asset.

Management have adopted a rotation plan for revaluing the asset classes so the valuations are not all completed in the one year. Assets that experience significant changes in fair value are revalued outside the rotation plan.

Management has determined that only the roading assets will be revalued in the 2020 year. For assets that are not revalued in the 2020 year, Management plans to perform a desktop exercise to assess the change in asset value. If the movement in asset value is material, a full revaluation will be undertaken.

There is a risk that revaluations are not appropriate because of incorrect assumptions and/or data, and that revaluation movements are not adequately reflected in the financial statements.

The impact of Covid-19 also introduces areas of uncertainty around the valuation of infrastructure assets. We have incorporated Covid related procedures in our work programme. Our work plan is to:

- Obtain the independent valuations of the relevant infrastructure asset classes;
- Obtain representations directly from the independent valuers confirming their valuation methodology;
- Review the key underlying assumptions used by the independent valuers to determine whether these assumptions were reasonable and in line with NZ generally accepted accounting practice (NZ GAAP) and assess whether the methodology is still appropriate with the impact of Covid;
- Hold various discussions with the valuers as appropriate; and
- Determine whether the revaluation transactions are correctly accounted for and disclosed in the financial statements in compliance with NZ GAAP. If there is significant valuation uncertainty noted as a result of Covid, ensure that this has been adequately disclosed in the financial statements;
- Review desktop reports from the valuers to identify any material fluctuations in value of assets not revalued in the current year;
- Obtain representations from management's experts as to impairment indicators and material fluctuations in respect of assets not revalued in the current year; and
- Consider any caveats included in the valuation.



D. Areas of audit focus



Area of audit focus	Our approach
Legislative Compliance: Rates Revenue <p>Over recent years there have been a number of issues within the Local Government sector arising from rates not being set in accordance with the Local Government (Rating) Act 2002 (LGRA). Compliance with the detail of the LGRA is critical: if the rate is not within the range of options and restrictions provided for in that Act, it may not be valid which exposes the Council to legal action and may inhibit the ability to collect rates.</p> <p>Management and Council need to continue to ensure that the requirements of the LGRA are adhered to and that there is consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the respective LTP or Annual Plan (AP).</p>	<p>As part of our audit we plan to:</p> <ul style="list-style-type: none">• Test the controls around the rates setting process at Council;• Where applicable reviewing relevant legal documentation and correspondence with legal advisors;• Complete a 'rates questionnaire' compiled by the OAG, (similar to that completed in the prior year), to assist us in determining if rates have been set correctly; and• Obtain an update on any outstanding legal matters concerning rates. <p>We note that we are not legal experts and we recommend Council continue to have their legal advisor review the documentation supporting the setting of rates to confirm legislative compliance.</p>
Development Contribution Revenue <p>There is a risk that development contributions may be misstated if they are calculated incorrectly or revenue is recognised incorrectly.</p>	<p>We plan to test a sample of development contributions for accuracy, and to review the recognition policy and practice against relevant accounting standards to ensure revenue is recognised at the correctly.</p>



D. Areas of audit focus



Area of audit focus

Our approach

The coronavirus disease (COVID-19) continues to rapidly evolve, and has already had a significant impact on operations and financial markets. It may also have accounting implications and affect the financial statements of reporting entities.

Entities must carefully consider their unique circumstances and risk exposures when analysing how recent events may affect their financial reporting. Specifically, financial reporting and related financial statement disclosures need to convey all material effects of COVID-19.

As this is a continuing event, we have been in touch with the finance team on how COVID-19 is affecting the Council and assisting with challenges that may arise relating to impacts on accounting for various aspects in the financial statements.

Some of the areas that may be affected are, but not limited to:

- Provision for doubtful debts on rates and other receivables such as infringements, building consents, licensing and compliance. More focus needs to be placed on other receivables as unlike rates where the Council can recover its rates via the ratepayer's mortgage, such an avenue is not available to Council;
- Breach of loan covenants (including impact on the classification of liabilities as current vs non-current);
- Fair value measurements, particular on its infrastructure assets
- Liquidity risk management
- Insurance recoveries related to business interruptions
- Increase to construction cost and the accounting treatment of these costs

When Council prepares its annual report, it is particularly important to provide ratepayers with appropriate insight into the risks and uncertainties facing an entity and the judgements that have been made in preparing financial information.

We expect management to consider and document the impact of the outbreak on accounting conclusions and disclosures. We have issued a special accounting alert which discusses some of the expected impacts. This can be found at:

<https://www2.deloitte.com/content/dam/Deloitte/nz/Documents/audit/Accounting-Alert/nz-en-special-edition-accounting-alert-march-2020.pdf>



D. Areas of audit focus

Sector wide area of focus

Area of audit focus	Our approach
Performance, waste and probity Ensuring that Parliament's expectations are met with respect to use of rate payer funds is a key feature of any audit in the public sector.	<p>Our audit approach will include a specific programme of work, as in previous years, covering the following aspects:</p> <ul style="list-style-type: none">• Confirming Council has the appropriate policy framework for areas such as delegated authorities, fraud, conflicts of interest, code of conduct etc.• Ensuring we understand any changes made to such policies.• Testing certain areas of sensitive expenditure to ensure spending is appropriate and authorised in accordance with policy and best practice.• Reviewing areas such as credit card expenditure, fuel card expenditure, and mobile phone expenditure.
Managing conflicts of interest and related party transactions Councils are required to ensure that there are appropriate procedures in place to identify and manage conflicts of interest and that related party disclosures in the financial statements are complete.	<p>Our audit procedures on related party disclosures include searching public records for potential related party relationships (such as the Companies Office website). We also ensure any entries in the interests register were individually assessed, and those which met the definition of a related party transaction during the year are disclosed in the Annual Report. This includes remuneration disclosures relating to the Councillors and key management personnel.</p>
Financial prudence Councils are required to include appropriate benchmarking reporting in the Annual Report as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.	<p>Our audit procedures will include review of the disclosures and recomputing key ratios to determine whether Council is in compliance with these regulations.</p>



D. Areas of audit focus

Sector wide area of focus



Area of audit focus

Our approach

Legislative compliance

The Council is subject to significant regulatory and legislative compliance requirements. The Council needs to have adequate systems in place to monitor compliance with legislation along with any changes occurring in the applicable legislation.

The key pieces of legislation that Council needs to be compliant with, as it pertains to the Annual Report include:

- the Local Government Act 2002
- the Local Government (Financial Reporting and Prudence) Regulations 2014
- the Non-Financial Performance Measures Rules 2013
- the Local Government Borrowing Act 2011
- the Local Government (Rating) Act 2002
- the Local Government Official Information and Meetings Act 1987
- the Local Authorities (Members' Interests) Act 1978

Our audit procedures will look at Council's processes for ensuring legislative compliance. Including specifically testing compliance with legislation that materially impacts on the financial statements. This includes the Local Government Act 2002 and the Local Government (Rating) Act 2002. In particular extensive work is completed on the rates setting process, as outlined in the Areas of Focus section above.

Provincial growth fund

The Provincial growth fund represents a \$3billion investment of public money in projects and initiatives which aim to lift productivity potential in New Zealand's regions.

Councils are required to account for the fund in accordance with PBE accounting standards and be transparent with their communities about the funding.

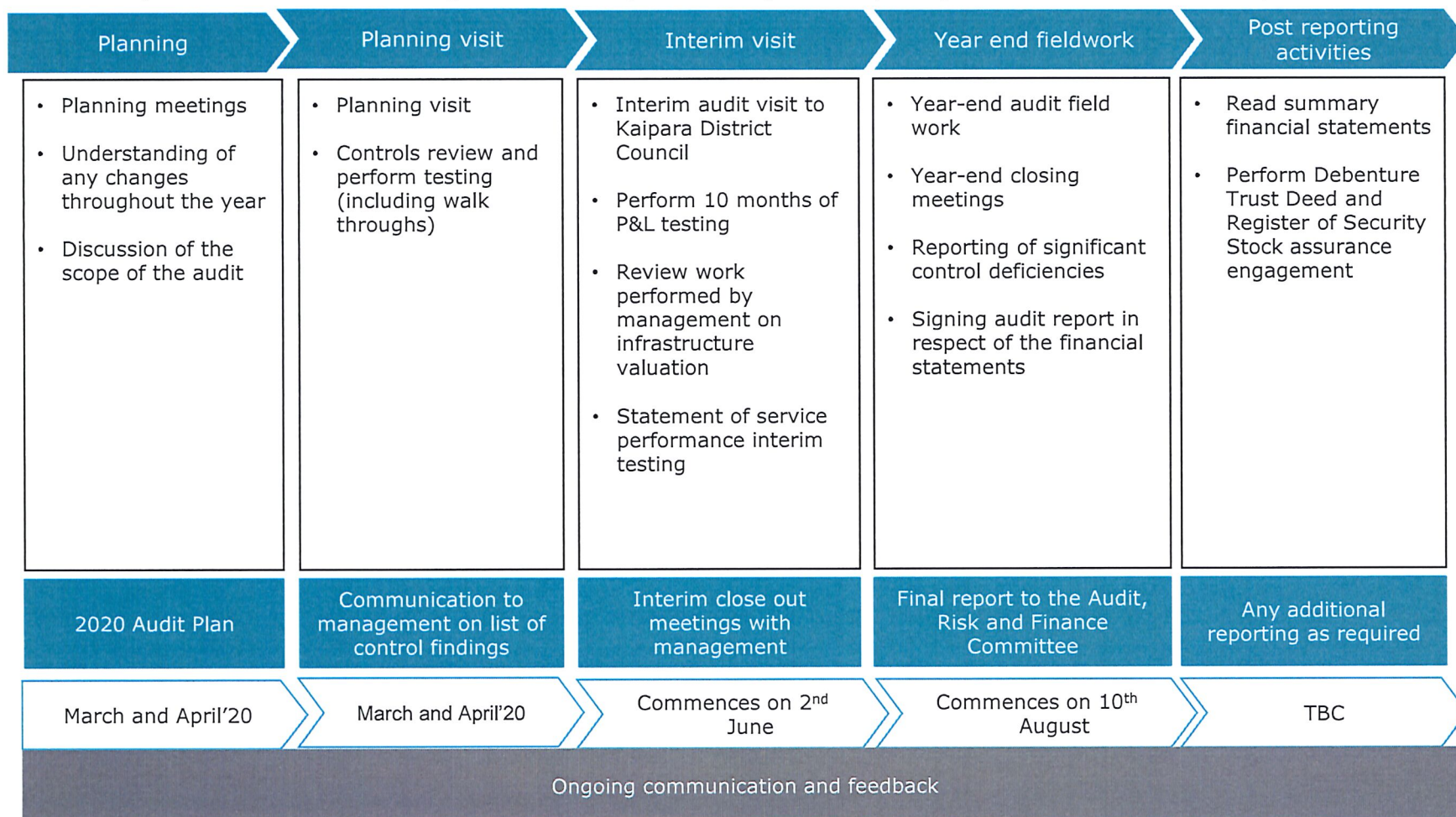
We will perform the following:

- review all provincial growth fund contracts;
- focus on the risk that revenue may not be recoded in the appropriate accounting period due to incorrect recognition or deferral of revenue. This could arise from incorrectly identifying conditions or restrictions associated with revenue transactions or incorrectly applying the contractual terms associated with the timing of when revenue is recognised;
- review disclosures in the annual report.

E. Continuous communication and reporting



As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



Appendices to the Planning report



Appendix 1: Purpose of report and responsibility statement

Purpose of report

This report has been prepared for Kaipara District Council's Audit, Risk and Finance Committee and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business as required by New Zealand auditing standards.

This plan is intended for the Audit, Risk and Finance Committee (and other Council members) and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.

This report includes only those matters that have come to our attention as a result of performing our audit procedures to date and which we believe are appropriate to communicate to the Audit, Risk and Finance Committee. The ultimate responsibility for the preparation of the financial statements rests with the Council.

Responsibilities

We are responsible for conducting an audit of Kaipara District Council for the year ended 30 June 2020 in accordance with New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board. Our audit is performed pursuant to the requirements of the Financial Reporting Act 2013, the Local Government Acts 1974 and 2002 the Local Government (Auckland Council) Act 2009 with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Council. The audit of the financial statements does not relieve management or the Council of their responsibilities.

Our audit is not designed to provide assurance as to the overall effectiveness of Kaipara District Council's controls but we will provide you with any recommendations on controls that we may identify during the course of our audit work.



Appendix 2: Fraud responsibilities and representations



Your responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from those charged with governance regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the areas of audit focus section of this document, we have identified the risk of fraud in the accuracy of accrued income, and management override of controls as a significant audit risk for your organisation.
- As required, we will consider any significant related party transactions outside the entity's normal course of business



Fraud characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will make inquiries of management, internal audit and others within the entity as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting Kaipara District Council. In addition we are required to discuss the following with the Audit, Risk and Finance Committee:

- Whether the Audit, Risk and Finance Committee has knowledge of any fraud, suspected fraud or allegations of fraud;
- The role that the Audit, Risk and Finance Committee exercises in oversight of Kaipara District Council's assessment of the risks of fraud and the design and implementation of internal control to prevent and detect fraud;
- The Audit, Risk and Finance Committee's assessment of the risk that the financial statement may be materially misstated as a result of fraud.

We will be seeking representations in this area from the Council in due course.



Appendix 3: Independence and fees

Effective 1 April 2020, the updated Code of Ethics (AG PES 1) introduce a change to the Auditor-Generals' independence requirements by placing limitations on "other work" that can be carried out by auditors, over and above the work we carry out on behalf of the Auditor-General. We are in the process of transitioning the non-assurance service that we provide to Kaipara District Council to another service provider.

We summarise below our proposed audit fees as discussed with management including details of any scope changes.

List of Services	CY payable (\$'000)	Contract approval?
Fees for the audit of Kaipara District Council annual report	157	OAG has approved audit services till June 2022.
Other assurance engagements relating to the Debenture Trust Deed and audit of the Register of Security Stock	9	
Total audit related and other assurance fees	166	
Online fraud and Corruption Awareness Training	-	We are working with the management to transition both services to another provider.
"Tip Off's" Whistleblower Service	8	
Other non-assurance fees	8	
OAG overhead	11	
Total fees	185	

* Cyber and security risk advisory services relates to Cloud security services and cyber attack services.





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