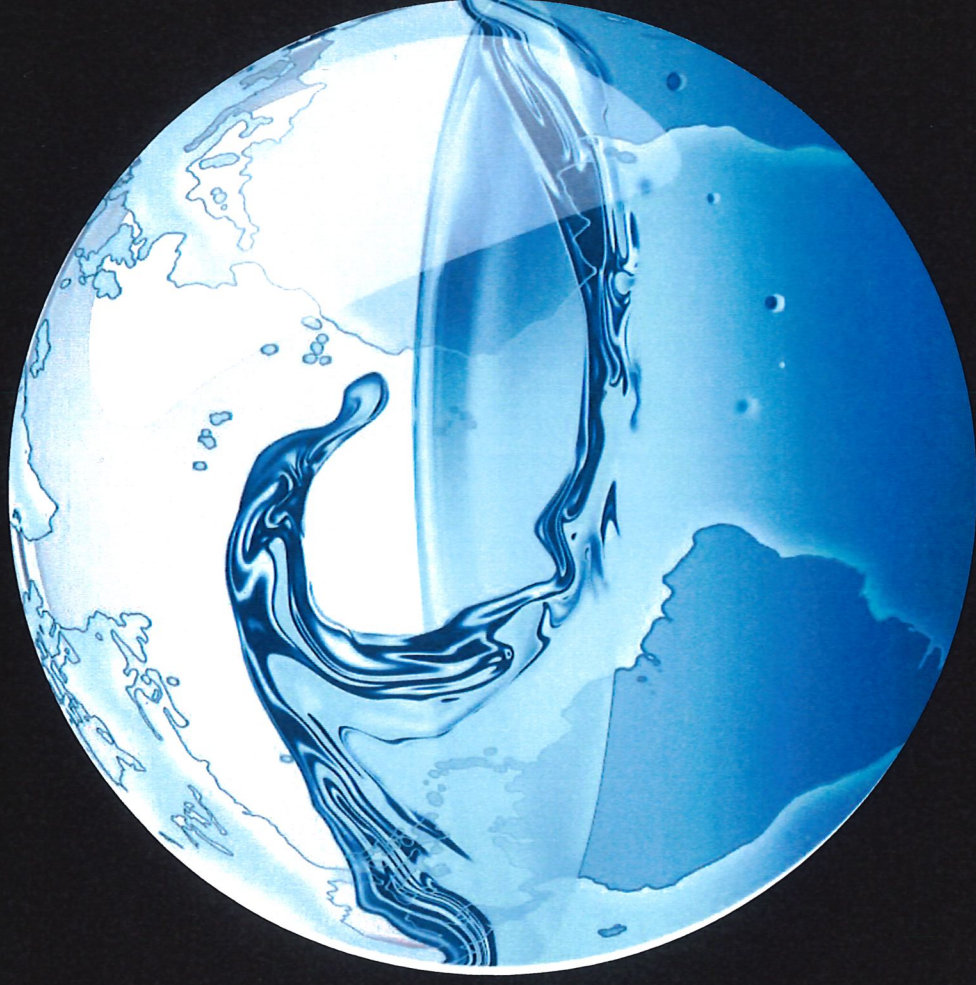


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Kaipara District Council

Planning Report to the Audit, Risk and Finance Committee
for the year ended 30 June 2021

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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 2021.

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.

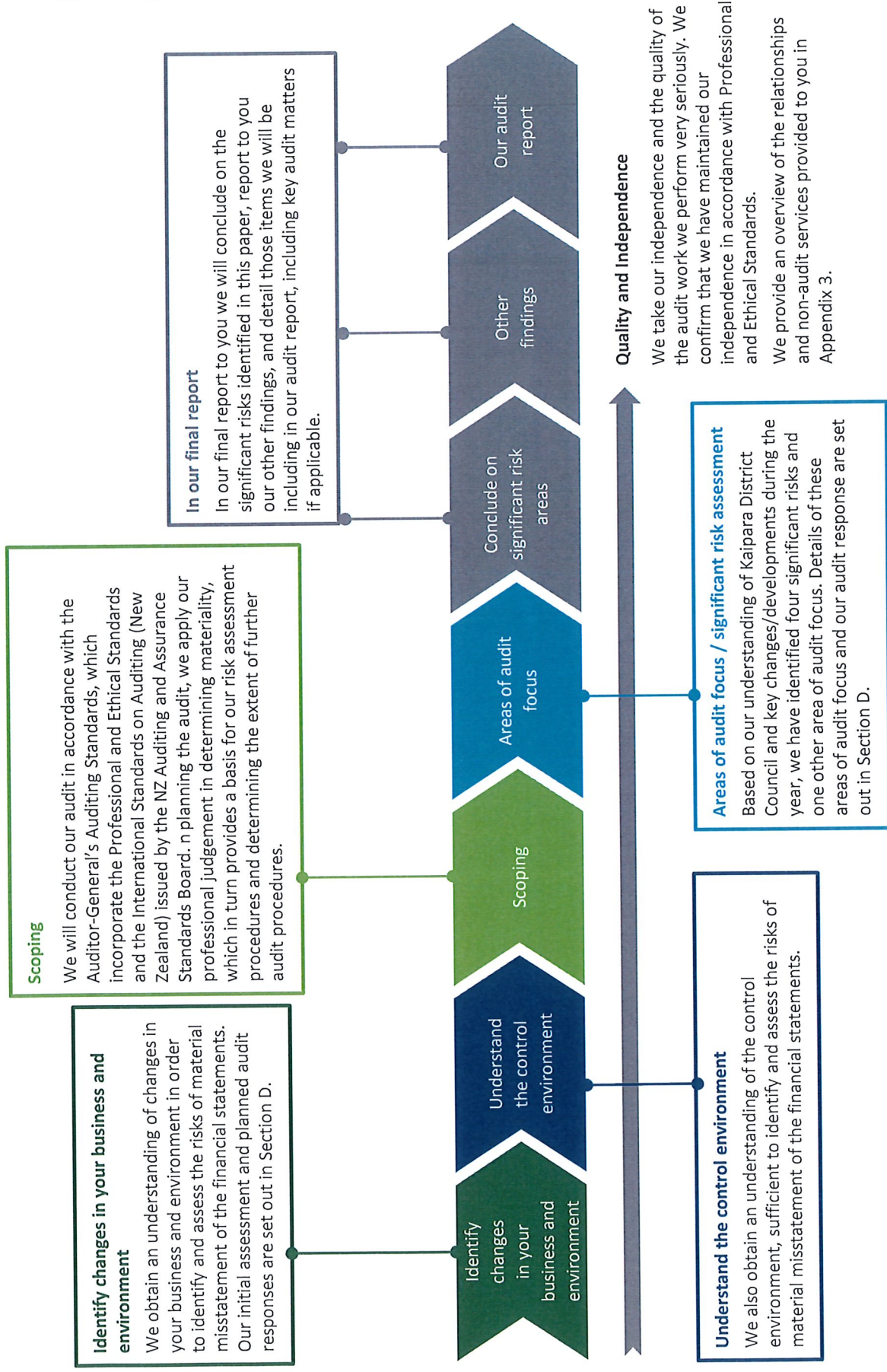
We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.




Bryce Henderson,
Approved Auditor
Partner,
for Deloitte Limited
Auckland | 1 June 2021



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;
- 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.

Findings on Internal controls and accounting practices

We refer to the constructive letter dated 18 December 2020 which contained comments on certain internal controls and accounting practices which came to our attention during our audit of the financial statements for the year ended 30 June 2021.

A number of the points raised in the FY20 audit (prior year audit) had been raised in prior years audit but had not yet been remediated during the years. We would like to emphasise the importance of remediating these internal controls and accounting policies on a timely basis as these findings have the impact of creating unnecessary delays and inefficiencies in the audit process.

We suggest that management use the constructive letter as a checklist during its month end process to ensure that it has effectively remediated the findings raised prior to audit testing.

Similar to prior years, we will run through the points in the constructive letter with management during our planning visit in June and assess if these have been remediated in the year.



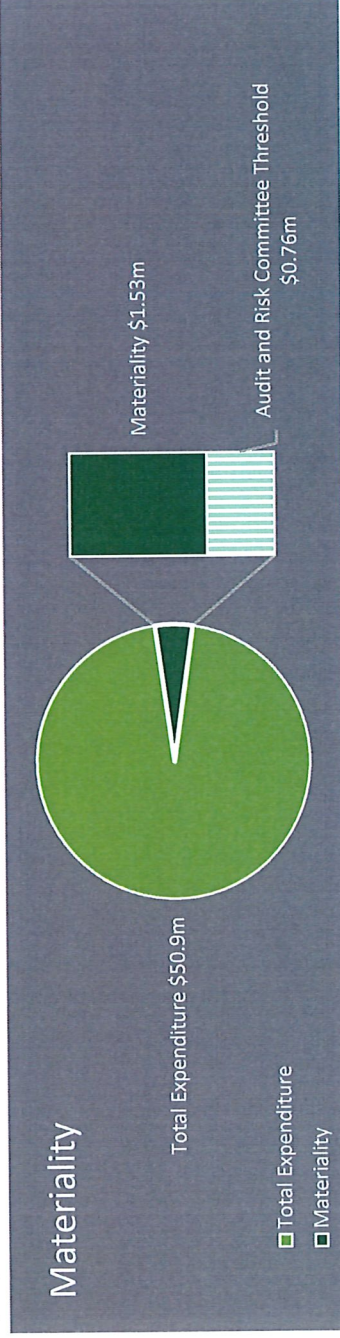
C. Identifying the areas of audit focus

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 2021 audit as shown below is based on total expenditure per the 2021 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 2021 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.

| Materiality comparisons | FY21 (\$m) | FY20 (\$m) | FY19 (\$m) |
|--|------------|------------|------------|
| Total expenditure per annual plan | 50.9 | 55.1 | 45.9 |
| Materiality (set based on total expenditure) | 1.53 | 1.65 | 1.37 |



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 | ✓ | x | D+I | ● |
| Legislative compliance: rates revenue | ✓ | x | D+I OE | ● |
| Development contribution revenue | ✓ | ✓ | D+I | ● |
| Sector wide area of focus | x | x | 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

Low ————— High



D. Areas of audit focus



Area of audit focus

Management override of controls

We are required to design and perform audit procedures to respond to the risk of management's override of controls.

Our approach

We plan to:

- 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

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.

Consistent with the prior year, Council plans to engage independent third party valuation experts to undertake the valuation of these assets, as well as determine (on a desk top basis) whether there has been any material movement in the fair value of the infrastructure assets not subject to a full valuation in 2021.

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.

We note that in prior years audit, the finance team faced numerous difficulties in providing us with a reconciliation between the data in the fixed asset ledger, data provided to the valuers and data included in the financial system. The main reasons include:

- Lack of timely reconciliation. The reconciliation process was only performed at the end of the year.
- Issues with reconciling the valuation reports to underlying financial and RAAM data;
- Time lag between recording the assets in the financial ledger and recording within the RAAM data. We note that performing reconciliations on a timely basis will assist the Council in identifying any variances due to time lag;
- Ensuring receipted valuation reports are reconciled to the general ledger being cognisant that the valuers data set may be based on May information;
- Construction and renewal information are not always updated in the underlying fixed asset database on a timely basis.

As part of the revaluation process, we understand that Council provides the valuer with the May data so as to receive a copy of the valuation report by early July. We note that the timing between receiving a copy of the valuation report and when we come out for our audit visit would provide management with one month to review the valuer's results and perform a reconciliation.

Our approach

In order to address this risk, we plan to:

- Follow up with management on the findings we have raised on Property, Plant and Equipment per our constructive letter to management dated 18 December 2020;
- 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);
- 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, 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;
- Review the disclosures in the financial statements on the revaluation assumptions.



D. Areas of audit focus



Area of audit focus

Our approach

Legislative Compliance: Rates Revenue

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.

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).

As part of our audit we plan to:

- 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.

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.

Development Contribution Revenue

Council incorrectly recognises building consent revenue when invoices are issued to the customer which can occur before any consent work is performed by Council.

Under PBE IPSAS 23, 'Revenue arising from non-exchange revenue', revenue is only recognised when goods or services are provided. As such, Council should defer revenue recognition to when building work is completed i.e. Code of Compliance Certificate issuance.

Therefore we have assessed that there is a risk that Council recognises revenue in the wrong period i.e. cut-off risk.

Our plan is to:

- Assess the design and implementation of the control around contribution revenue;
- test a sample of development contributions before and after year end;
- review the recognition policy and practice against relevant accounting standards to ensure revenue is recognised in the correct period.



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.

Our audit approach will include a specific programme of work, as in previous years, covering the following aspects:

- 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.

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.

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.

Our audit procedures will include review of the disclosures and recomputing key ratios to determine whether Council is in compliance with these regulations.



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

Provincial growth fund and Shovel ready projects

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

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.

We will perform the following:

- review all provincial growth fund and shovel ready projects contracts;
- focus on the risk that revenue may not be recorded 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.



D. Areas of audit focus



Area of audit focus

Our approach

Government reforms

As with 2020/21, there continues to be change in the sector with new regulatory requirements (new and updated national policy statements) in place or proposed (most notably the three waters reform), and other areas being considered by the Government. This constant change makes it challenging for councils to plan ahead, particularly because of uncertainties of regulatory settings and the significant cost implications of these changes.

Some areas of focus include:

- Councils received a share of \$761million Crown stimulus funding around the three waters reform programme. This was the first tranche of funding.
- The national policy statement for freshwater management 2020 ('NPS-FM 2020') came into force on 3 September 2020. More rigorous standards for wastewater and stormwater discharges set by regional councils. This would then have implications for the management of local authorities' wastewater and stormwater networks, including the renewal of resource consents and the upgrade of water networks.

As part of our audit process we will:

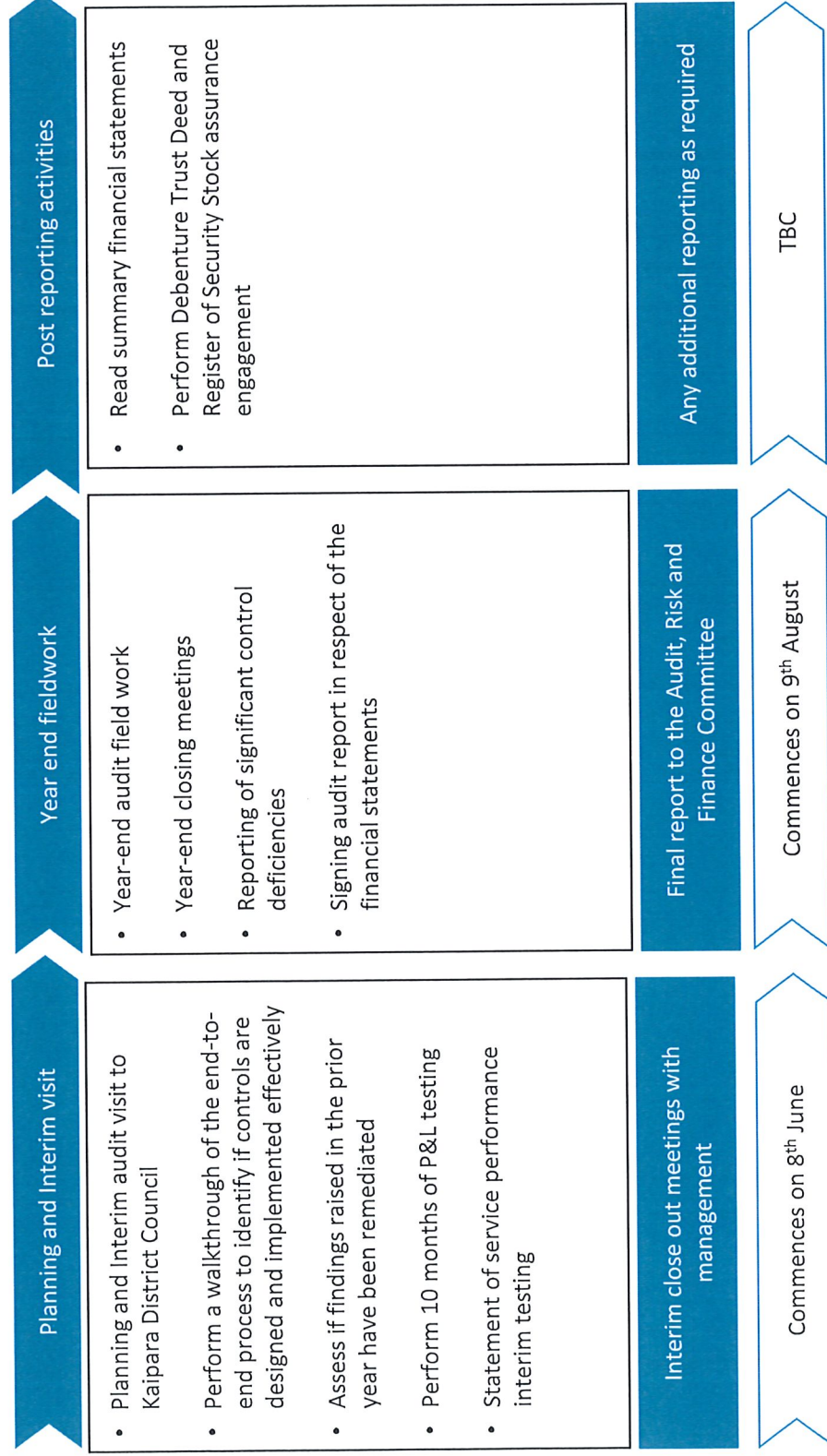
- Continue to follow up and discuss with management on the impact of these initiatives to the Council, where necessary, will consider them within our audit approach; and
- Maintain close communication with the Office of the Auditor-General ('OAG') if there are any other areas that requires further consideration.



E. Continuous communication and reporting

In planning for our FY21 audit visits, we had discussions with management on the challenges faced in the prior year audit and how this can be mitigated in the current year audit. We have agreed with management to provide Council with more time to prepare for our planning visit which has resulted in shifting the planning visit from April to June'21.

The audit plan is executed throughout the year and hence 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.



Ongoing communication and feedback



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 2021 in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) 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 summarise below our proposed audit fees as discussed with management including details of any scope changes. We have transitioned all non-assurance service that we used to provide to Kaipara District Council to another service provider. Therefore the fees relating to other services relate to fees that have been billed during FY21. We do not expect to bill any other non-assurance fees.

| List of Services | CY fees (\$'000) | Contract approval? |
|--|------------------|---|
| Fees for the audit of Kaipara District Council annual report | 195 | We have provided Council with our proposed fees for the financial year ended 2021 and 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 | 204 | |
| "Tip Off's" Whistleblower Service | - | |
| Online fraud and Corruption Awareness Training | 5 | Last billing for this service was in August 2021. |
| Other non-assurance fees | 213 | |
| OAG overhead | 14 | |
| Total fees | 227 | |

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

4. Financial reporting and other developments



4A. Developments in financial reporting – overview

The following table provides a high level summary of the major new accounting standards, interpretations and amendments that are relevant to the Group. A full list of the standards on issue but not yet effective is released quarterly and is available here:

https://www2.deloitte.com/nz/en/pages/audit/articles/accounting-alert.html?icid=top_accounting-alert

| Major new standard, interpretation or amendment | Effective date (periods beginning on or after) |
|---|--|
| PBE FRS 48 Service Performance Reporting | 1 January 2022 |
| PBE IFRS 9 Financial Instruments | 1 January 2022* |
| PBE IPSAS 41 Financial Instruments | 1 January 2022 |

*Will be superseded by PBE IPSAS 41 but early adoption is still permitted if the date of initial application was before 1 January 2020

Early implementation efforts recommended

Early effort to consider the implementation of these standards is recommended in order to provide stakeholders with timely and decision-useful information. Implementation steps are outlined opposite.

Steps for implementation

Determine extent of impact & develop implementation plan

Monitor progress and take action where milestones are not met

Identify required changes to systems, processes, and internal controls

Determine the impact on covenants & regulatory capital requirements, tax, dividends & employee incentive schemes



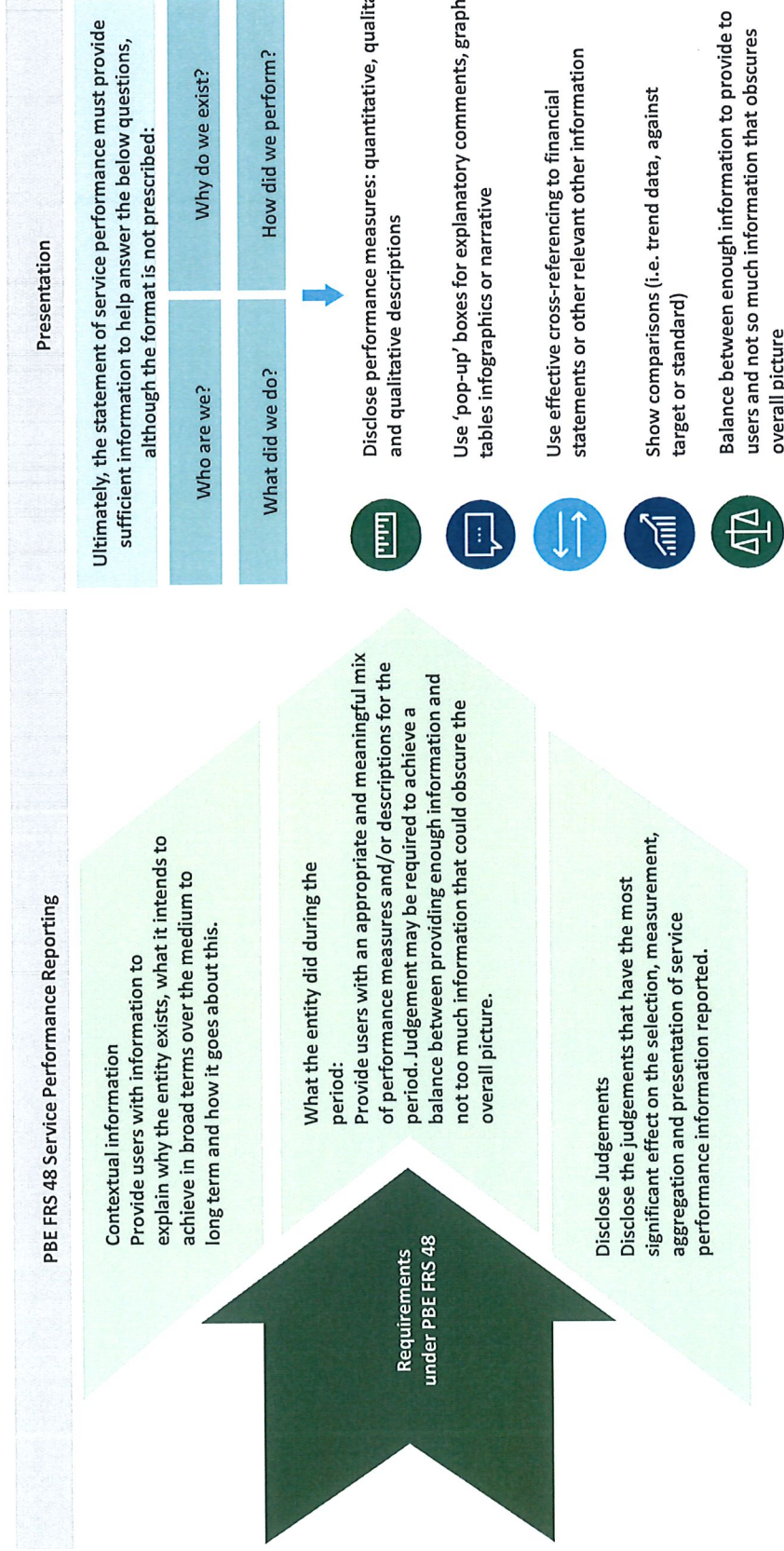
4A. Developments in financial reporting – PBE FRS 48 Service Performance Reporting

PBE FRS 48 *Service Performance Reporting* establishes new requirements for the selection and presentation of service performance information. It applies to Tier 1 and 2 not-for-profit PBEs, and to public sector PBEs which are required by law to report service performance information in accordance with GAAP, and is effective for annual reporting periods beginning 1 January 2022.

The objective of PBE FRS 48 is to establish principles and requirements for presenting service performance information that is useful for accountability and decision-making purposes. The Standard establishes high-level requirements which provide flexibility so that an entity can determine how best to 'tell their story' in an appropriate and meaningful way.



Explanatory guidance available in the XRB's website



4B. Using “functional leadership” to improve government procurement

The OAG’s current performance audit focus is on procurement. From the work performed by the OAG in 2019, the OAG found that many public organisations have difficulty bringing together the financial and contract management information. Being able to do this would make it easier for the organisations to assess value for money.

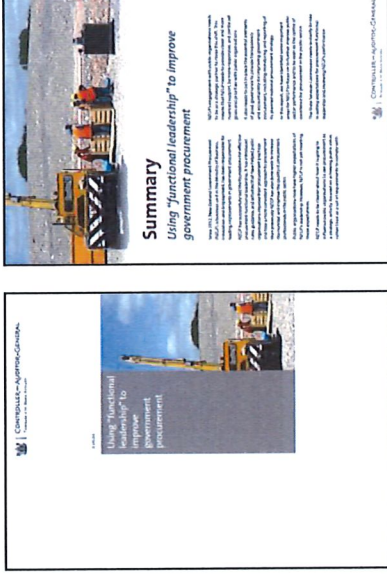
The OAG has published a report, ‘Using “functional leadership” to improve government procurement’, to present their findings and recommendations. The full report is accessible here:

<https://oag.parliament.nz/2019/functional-leadership>

The summary includes some questions that executive leaders should ask in order to ensure that they have a comprehensive understanding of the organisation’s procurement spending.

The summary is accessible here:

<https://oag.parliament.nz/2019/functional-leadership/docs/summary-functional-leadership.pdf>



The questions to consider include:

- What are we buying?
- Who are we buying from?
- Is all buying going through all-of-government contracts when it should be?
- Who is buying?
- How often do we buy?
- When did we buy?
- How much did we pay?
- Are we getting what we had been promised?
- What location were the items delivered to?
- How does the data compare to previous years?

The aim should be for senior leaders to:

- Be confident that procurement is helping achieve the strategic outcomes;
- Have easy access to good quality procurement spending data which is regularly analysed to improve cost-effectiveness;
- For all-of-government contracts, be confident that all spending is going through those contracts.





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