

**Chairperson and Committee Members**  
AUDIT AND RISK COMMITTEE

13 SEPTEMBER 2018

Meeting Status: **Public**

Purpose of Report: For Information

**CLOSING REPORT FROM AUDIT FOR THE YEAR ENDED  
30 JUNE 2018**

**PURPOSE OF REPORT**

- 1 This report provides the Audit and Risk Committee with Ernst & Young's Closing Audit Report for the year ended 30 June 2018.

**DELEGATION**

- 2 The Audit and Risk Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3.
  - *Reviewing and maintaining the internal control framework*
  - *Obtaining from external auditors any information relevant to the Council's financial statements and assessing whether appropriate action has been taken by management in response to the above.*

**BACKGROUND**

- 3 Council's Auditors, Ernst & Young (Audit) tabled their audit plan for the year ended 30 June 2018 at the Audit and Risk Committee meeting on 27 April 2018. Audit has now substantially completed their audit of Council's draft Annual Report and Council's compliance with its Debenture Trust Deed, for the year ended 30 June 2018.
- 4 Their Closing Report is attached as Appendix 1. This provides an overview of Ernst & Young's audit process, their audit findings, adjustments required, their draft Audit Report and Council's draft Management Representation Letter.

**CONSIDERATIONS**

**Closing Report Summary**

**Draft Audit Report**

- 5 Audit has confirmed that they will issue an unqualified Audit opinion on Council's draft 2017/18 Annual Report, subject to the adequate resolution of the following outstanding items:
  - The complete review of the final version of the 2017/18 Annual report.
  - Receipt of Council's signed management representation letter on adoption of the 2017/18 Annual Report by the Council on the 27 September 2018.
  - Receipt and review of Council's Draft Summary Annual Report
  - Completion of the post balance sheet events review to the date of signing the audit report.
  - Completion of minor outstanding audit points.

- Audit to complete their review of the correctness of Council's Debenture Trust Deed signed reporting certificates.
- Receipt and review of underlying calculations for four service performance measures
- Finalising the review of other income
- Completion of the review of a sample of journal entries

## Key Audit Findings

- 6 Other than the items discussed below, Audit raised no concerns that should be brought to the attention of the Committee.

### Non-financial performance information reporting

- 7 Audit is satisfied that the Statement of Service Performance fairly reflects Council's performance against the measure and targets outlined in the 2015/35 Future Kāpiti Long term plan.
- 8 While they were performing their audit work, they did however identify four recommended adjustments (see audit differences below) that relate to measures that rely on customer services requests that have been calculated incorrectly due to either data capturing or processing error. These adjustments were made.

### Landfill Aftercare Provision

#### Discount rate

- 9 Management still holds the view that uncertainty exists around the future landfill aftercare costs, but as a result of an external party review conducted in 2016/17 there are more confidence in the accuracy and completeness of the nominal cash flows pertaining to the closure and aftercare cost of the landfill.
- 10 Based on this and prior year Audit advice, management has consciously reassessed the discount rate used for calculating the landfill aftercare provision and as a result changed the rate from 0%(2016/17) to 1.57%(being the risk free rate adjusted down for any remaining uncertainty over the estimated nominal cash flow).
- 11 Audit was satisfied that the provision is a fair reflection of the Council's future liability based on the current estimate of the closure date and costs.

### Audit Differences - Unadjusted

- 12 The table below details one financial statement audit difference identified by Audit that remains unadjusted by management in the draft financial statements.

Unadjusted Audit difference	Income statement (Increase)/Decrease	Net assets (Decrease)/Increase
Income from vested assets	145,000	
Other payables		(145,000)
<b>Correction of a property acquisition that was incorrectly recorded as vested to Council.</b>		
<b>Total net impact</b>	<b>145,000</b>	<b>(145,000)</b>

- 13 This relates to a property that was recorded as a vested asset in Council's financial statements, but on further investigation proved to be an acquisition with on-going settlement negotiations.
- 14 Management agrees with Audit's assessment of this error, but due to the size of the error, as well as the timing of when it was identified, the decision was taken to not make the adjustment in the financial statements.

### **Audit Differences – Adjusted**

- 15 The table below details the four non-financial audit differences identified by Audit that were agreed and adjusted by management in the draft financial statements.

Nr	Measure	KCDC result	EY result	Change
1	Median response time to a fault or unplanned interruption to our water network measured by resolution time (from the time that Council receives notification to the time that staff confirm resolution) Urgent and non Urgent	323 minutes	346.5 minutes	23.5 minutes
2	Median response time to a fault or unplanned interruption to our water network measured by resolution time (from the time that Council receives notification to the time that staff confirm resolution) Non Urgent	66 minutes	68 minutes	2 minutes
3	Median response time to sewage overflow resulting from a blockage or other fault measured by resolution time (from the time Council received notification to the time staff are on site)	122 minutes	126 minutes	4 minutes
4	Percentage of service requests relating to roads and footpaths responded to within 24 hours of notification	100%	60%	40%

- 16 At the time of writing this report, Audit was still finalising their audit of certain performance reporting measures which may give rise to further audit adjustments and an update will be provided to the committee at the meeting.

### **Financial Considerations**

- 17 Financial issues have been covered as part of this report.

### **Legal Considerations**

- 18 There are no legal issues.

### **Consultation**

- 19 There are no consultation issues.

## Policy Implications

20 There are no policy implications.

## Tāngata Whenua Considerations

21 There are no tāngata whenua considerations.

## Publicity Considerations

22 There are no publicity considerations.

## SIGNIFICANCE AND ENGAGEMENT

### Significance Policy

23 This matter has a low level of significance under the Council's Significance and Engagement Policy.

## RECOMMENDATIONS

24 That the Audit and Risk Committee receives the Closing Audit Report from Ernst & Young and notes that there is one unadjusted audit differences in the draft financial statements or draft 2017/18 Annual Report.

**Report prepared by:**

**Approved for  
submission:**

**Approved for  
submission:**

**Anelise Horn  
Manager, Financial  
Accounting**

**Kevin Black  
Acting Group Manager  
Strategy & Planning**

**Janice McDougall  
Acting Group Manager  
Corporate Services**


## ATTACHMENT

Appendix 1: Ernst & Young's Closing Report to the Audit & Risk Committee for the year ended 30 June 2018.

# Kapiti Coast District Council

Closing Report to the Audit and Risk  
Committee for the year ended 30 June  
2018

September 2018

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## Dear Committee members

We have substantially completed our audit of the financial statements and service performance information for Kapiti Coast District Council ('Council') for the year ended 30 June 2018.

Subject to the adequate resolution of the outstanding matters listed in our report, we confirm that we will issue an unmodified audit report on the annual report.

We have provided this report in our role as the appointed auditor of the Council on behalf of the Auditor-General in accordance with the Public Audit Act 2001. This report is intended solely for the use of the Audit and Risk Committee ('the Committee'), other members of the Council and senior management, and should not be used for any other purpose nor given to any other party without our prior written consent.

We would like to thank your staff for the assistance provided to us during the audit.

I look forward to the opportunity of discussing with you any aspects of this report or any other issues arising from our work.

If you have any queries in the meantime, please feel free to contact me on 021 923 431 or at [david.borrie@nz.ey.com](mailto:david.borrie@nz.ey.com).

Yours faithfully



David Borrie  
Partner  
Ernst & Young





# Executive summary

# Executive summary

Scope of the audit	<p>Our audit has been performed in accordance with our Audit Plan, the Office of the Auditor-General's (OAG) Auditing Standards, which incorporate International Auditing Standards (New Zealand) and the OAG's 2018 sector brief to provide reasonable assurance that the financial statements and performance information is free of material misstatement.</p>		There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Committee.
Status of the audit	<p>At the time of writing, we have largely completed our audit fieldwork procedures and have provided feedback to management with regards to the draft financial statements and service performance information. We will complete our final audit procedures prior to our meeting with the Committee on 13 September 2018. We will update the Committee at that time.</p> <p>Subject to the completion of the following matters we anticipate issuing an unqualified audit opinion (refer Appendix D):</p> <ul style="list-style-type: none"><li>• Resolution of the outstanding matters outlined in Appendix C of this report.</li><li>• Consideration by the Committee of the matters in this report.</li><li>• Adoption by Council of the Annual Report.</li></ul> <p>Our independence has been confirmed by all members of our team and an Independence Declaration has been included in this report (refer Appendix B).</p>	Internal control environment	<p>During the audit, we identified a number of observations and recommendations in relation to management's financial and non-financial processes and controls. Internal control findings have been documented in a report on control findings which has been provided to management. We have not identified any control weaknesses that represent significant deficiencies in internal controls or internal control matters of a 'critical' or 'high' risk nature.</p>
Areas of audit focus	<p>In our Audit Plan we identified a number of areas of focus. Pages 6 to 13 of this report set out our perspective in relation to each of these areas.</p> <p>We request you review these and other audit and accounting matters set out in this report to ensure:</p> <ul style="list-style-type: none"><li>• There are no further considerations or matters that could impact these issues.</li><li>• You concur with the resolution of the issues raised.</li><li>• There are no further significant issues you are aware of to be considered before the Annual Report is finalised.</li></ul>	Materiality	<p>As set out in the Audit Plan presented to the Committee, the purpose of our audit is to provide assurance that the financial statements and service performance information of Council are free from material error. Materiality has been recalculated based on the actual operating expenditure for the year ended 30 June 2018. We have used \$1.2m in assessing any potential misstatement to the financial statements as a whole.</p>
		Audit differences	<p>There is one unadjusted audit difference impacting the financial statements arising from our audit. Four audit differences in the statement of service performance have been identified which have been adjusted for by management in the annual report.</p>
		Written representations	<p>We have requested a letter of representation from those charged with governance. A copy of this letter is included in Appendix F and should be approved at the time of adoption of the Annual Report by Council.</p>



# Areas of audit focus

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## Area of focus

Accounting for infrastructure assets



Key areas:

- Judgements around valuation of infrastructure assets
- Appropriateness of depreciation and remaining useful lives of assets
- Appropriate classification of maintenance / capital expenditures

Relevant accounting standards:

- PBE IPSAS 17 *Property, Plant and Equipment*

## Background

- Infrastructure assets dominate KCDC's balance sheet with a 30 June 2018 carrying value of \$1,456 million (2017: \$1,408 million).
- Infrastructure assets are revalued regularly in accordance with Council's defined revaluation schedule by qualified and experienced external valuation professionals.
- For the current year the 3 waters assets (water supply, stormwater and waste water) were revalued and the following valuation movements were recorded:

Component	Revalued carrying amount \$million	Revaluation movement \$million
Sewerage System	139	27
Water Supply System	118	15
Stormwater System	63	-2
Seawalls and River Protection	6	1
Total value	326	41

The revaluation gain of \$41m is primarily due to increased unit costs for pipes and manholes.

Our procedures have focused on:

- Considering if the appointed valuers were suitably qualified and experienced to undertake the valuations for the Council and that the valuers were independent so that we could rely on their work in an audit context.
- The data provided by the Council to the valuers was materially complete and accurate and sourced from the Council's core systems.

## EY perspective

Infrastructure assets valuation

There are a number of key assumptions that the valuer is required to make based on their experience in the field, and each of these judgements have the potential to materially impact the resulting valuation. Key amongst these judgements is:

- Remaining useful life assessments.
- Assumed replacement cost.
- Optimisation decisions.

The valuation was performed by WSP Opus International Consultants. We have obtained the valuation report and performed the following audit procedures with regard to the valuation:

- Obtained an understanding of key inputs to the valuation including unit costs. We considered these unit costs in the context of comparable values including those provided to Council by Cuttriss Consultants. While there is some variability in comparable unit costs we are satisfied with those used by Council.
- On a test basis, assessed whether the asset information provided to the valuer was reflective of the asset data maintained in the Council's Asset Management Systems with no material differences noted.
- Obtained assurance that all assets within the asset class were included in the valuation and considered the completeness of assets valued.
- Performed procedures to obtain assurance that the valuation has been appropriately recorded in the fixed asset register and general ledger.
- Obtained reliance letters confirming the independence of the valuers and assessed the professional expertise of the valuers.
- Assessed the extent of due diligence performed by management and whether this was adequate for the purpose of revaluation.

We are satisfied that water infrastructure assets have been appropriately recorded and disclosed in the financial statements.

Area of focus	Background	EY perspective
	<ul style="list-style-type: none"> <li>Whether Council officials had performed suitable quality assurance over the valuation reports.</li> </ul> <p>Other significant components of infrastructure assets:</p> <ul style="list-style-type: none"> <li>As at 30 June 2018, Council has a Work-In-Progress balance of \$15.5 million (2017: \$18 million) which consisted of approximately 77 different projects.</li> <li>The value of assets vested to the Council during the course of 2018 amounted to \$3.6m (2017: \$87k).</li> </ul>	<p>For asset classes that were not revalued in the current year, we reviewed the assumptions underlying the historical valuation against current asset management plans to check that values ascribed to these assets are still appropriate. We have also discussed management's assessment for indicators of impairment at balance date. Based on this no indicators of impairment were noted.</p> <p>Capital additions and depreciation</p> <p>We selected a sample of material infrastructure asset additions during the year and vouched these to supporting documentation and obtained assurance that only costs which fulfilled the capitalisation criteria under PBE IPSAS 17 <i>Property, Plant and Equipment</i> are capitalised.</p> <p>We considered the integrity of the depreciation charged on the various classes of infrastructure assets, with particular attention being placed on the roading assets that were revalued in 2017 and whether the useful lives and depreciation charge for the 2018 year was in line with the previously completed valuations. We noted that the depreciation rates have been appropriately reflected in the fixed assets register following the valuation.</p> <p>Work-in-progress</p> <p>For the Work-In-Progress balance we have performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>Obtained the detailed listing of projects and selected a sample of individual items to test the nature of the capitalised item.</li> <li>Inquired with management if any projects have exceeded budgets or have been unnecessarily delayed.</li> <li>Selected a sample of items recorded in maintenance expenditure and obtained supporting information to test if these items should be capitalized.</li> <li>For completed projects traced the transfer through to the fixed assets register and checked these are subject to depreciation.</li> </ul> <p>Work-in-Progress included various projects such as the Waikanae duplicate rising main project, Paekakariki coastal protection upgrade and town centre upgrades. We noted no issues with regards to the carrying value of Work-in-Progress.</p>



## Area of focus

Integrity of rates setting, rates invoicing and collection considerations



### Key areas:

- \$60.7m of revenue in 2017/18
- Compliance with the Local Government (Rating) Act
- Consistency between rates resolution, Funding Impact Statement and Revenue and Financing policy in the LTP.
- Effectiveness of controls over the invoicing process.

### Relevant accounting standards:

- PBE IPSAS 23 *Revenue from Non-Exchange Transactions*

## Background

- Rates income levied represents KCDC's primary revenue source. There is specific legislation in place which must be adhered to for the rates set to be lawful. In the local authority context, failure to comply with rating law and the associated consultation requirements can create significant risks to the integrity of rates revenue.
- The requirement for there to be consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the LTP is fundamental because this is the thread that links community consultation to the rates levied by KCDC forming the core of the KCDC's revenue.
- The accuracy of rates setting / revenue is dependent on the integrity of the rates database. The reliability of the rates billing system should also ensure rates are billed appropriately.
- Certain rate paying groups may represent significant collection risk.
- Recent legal challenges against certain local authorities have identified a range of issues relating to the legislative compliance, and therefore legality of rates sought.

## EY perspective

### Rates strike and invoicing

During the course of our audit we have reviewed the Council's rate strike for the financial year and the application of these rates to the rating database. We have also undertaken a review of the billing to specific ratepayers and subsequent collection on a sample basis. For a sample of water rates invoices we have agreed the amounts to the supporting information and traced cash received to bank statements.

We also assessed the appropriateness of the rates strike for 2018/19 and considered the key elements of the legislative framework associated with the Local Government (Rating) Act and Local Government Act.

We tested Council's controls over the rate setting processes. Our testing indicates the controls are operating effectively. This included testing the accuracy of the use of underlying valuation information (as prepared by Quotable Value).

We understand Kapiti does not have a UAGC, or any targeted rates set on a uniform basis, which are relevant to the calculation of the 30% LGA cap, and hence the 30% cap stipulated in the Local Government (Rating) Act is not relevant.

### Compliance with Ratings Act

In 2017, KCDC obtained legal advice that confirmed that the Local Government (Rating) Act 2002 requires Council's rates assessment to include the districtwide water supply fixed rate and the districtwide water supply volumetric rate. The advice noted that a Council with volumetric water rates could not fully comply with the Act as it could not include the total charge for the rate on the rates assessment. Council continues to comply with legislation to the extent practically possible for this matter.

### Rates debtors

Council had \$3.7 million of rates receivable due at 30 June 2018 (2017: \$3.5 million). Council has provided for \$0.7 million (2017: \$0.6 million) of overdue rates. This provisioning includes consideration of the elements of the Local Government (Rating) Act 2002 which gives Local Authorities the right to lease or sell the property in order to collect the rates.

## Area of focus

### Recognition of New Zealand Transport Authority (NZTA) Subsidies



#### Key areas:

- NZTA Grants and Subsidies \$5.4m
- Compliance with the NZTA requirements

#### Relevant accounting standards:

- PBE IPSAS 23 *Revenue from Non-Exchange Transactions*

## Background

Transport projects and maintenance undertaken by KCDC are eligible to receive funding from NZTA. Every three years, KCDC agrees the Roothing work programme with NZTA. In order for roading work to be eligible for NZTA funding, it must be competitively tendered.

Financial reporting standards require NZTA subsidies to be recognised as revenue, while a portion of the associated expenditure is capitalised by KCDC as part of roading assets.

There is a risk that KCDC will claim costs that are ineligible according to the funding requirements, thereby overstating the claim accrual and the corresponding revenue at year end.

## EY perspective

During the year, KCDC claimed \$5.4 million (2017: \$4.5 million) in NZTA subsidies. We have performed the following audit procedures:

- We have reviewed the claim process and controls system (approvals, checking and reconciliations) utilised by KCDC to support claims made to NZTA.
- We considered whether income from subsidies moves in line with our expectations and our understanding of the related costs incurred.
- We have reviewed a sample of NZTA funding received during the financial year to test that it has been appropriately recorded in the financial statements and that the funding is generated by expenditure in line with NZTA approved budgets.
- We have assessed the year end accrual for NZTA revenue to obtain assurance that the amount recognised for claims at year end relates to 2018 year.
- We have obtained and reviewed supporting documentation for funding levels approved by NZTA.
- We have carried out an assessment of the reasonability of NZTA income and its completeness in consideration of the level of costs incurred for the period.

## Area of focus

### Debt facilities and derivatives



#### Key areas:

- Debt amount to \$205m
- Valuation of derivatives

#### Relevant accounting standards:

- PBE IPSAS 28 *Financial Instruments: Presentation*
- PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*
- PBE IPSAS 30 *Financial Instruments: Disclosures*

## Background

Borrowing represents one of the main sources of funding for KCDC and the debt levels change with the timing of planned capital projects and repayment timelines. The total value of the debt as at 30 June 2018 was \$205 million (2017: \$210 million).

During 2018, KCDC pre-funded \$49.5 million of debt maturing in the next two years. As at 30 June 2018, the Council has net debt of \$148m (2017: \$146m).

KCDC accesses debt through the Local Government Funding Authority (LGFA). KCDC has reporting requirements and debt covenant compliance obligations. The Council is responsible for preparing Reporting Certificates to the Trustee in accordance with the requirements of the Trust Deed and we are required to report to the Trustee with respect to the accuracy of the reporting certificates.

KCDC is also a guarantor of the LGFA total debt and the financial reporting standards require the Council to recognise fair value of the guarantee liability.

KCDC maintains interest rate swaps to manage the Council's exposure to interest rate fluctuations. The mark to market value of swaps amounted to a liability of \$13.2m (2017: liability of \$11.4m) at 30 June 2018. Fair value changes have been recorded in the Statement of Comprehensive Revenue and Expenses.

## EY perspective

We carried out the following audit procedures with regard to the public debt and interest rates swaps:

- Obtained an understanding of debt facility agreements maintained in the year and reviewed the relevant debt facility agreements including the process for managing drawdowns.
- We have considered the term or current classification of the debt.
- Obtained LGFA confirmation of outstanding debt position at year end.
- Confirmed derivative positions in place at year end and independently valued a sample of derivative contracts.
- Reviewed disclosures associated with the debt and swap positions held are in accordance with the reporting standards.
- On a test basis, performed procedures to check compliance with Council's treasury management policy.

We also completed procedures required of us by the debenture trust deed. Based on the work performed, nothing has come to our attention that indicates the statements made in the reporting certificates issued by the Council are materially misstated. Subject to the completion of certain procedures, we expect to issue an unqualified report to the Trustees and Council.



## Area of focus

Completeness and effectiveness of the Council's non-financial performance reporting



Key areas:

- Collection and processing of information

## Background

The Council is required to report its performance against levels of service expectations and performance measures included in the Long Term Plan (LTP) or Annual Plan. These measures are key to the Council providing a 'performance story' to the community.

Our audit opinion on the service performance report covers compliance with generally accepted accounting practice, and whether or not the service performance report fairly reflects the Council's actual service performance for the period.

The initial 2018 performance framework was set as part of the 2015/35 LTP. Council has also revisited the performance framework as part of the 2018/38 LTP process.

There is a risk of inadequacy of reporting systems to monitor performance and hence the potential failure to adequately report the provision of core utility services to the public.

We have selected the following activities as significant in the context of our audit of 2017/18 annual report. However, we have considered the entire performance report as part of our feedback to management.

- Water
- Access and Transport
- Coastal Management
- Wastewater
- Stormwater
- Recreation and Leisure

## EY perspective

We carried out the following audit procedures in assessing completeness and effectiveness of the Council's non-financial performance reporting:

- Updated our understanding of key performance reporting processes and review the collation methodologies applied by the Council.
- Examined, on a sample basis, the Statement of Service Performance to determine that the measures have been reported on and outputs have been achieved where stipulated. For the selected measures, this included obtaining the underlying supporting calculations and on a test basis re-performing calculations.
- Assessed the completeness and effectiveness of the performance framework utilised and conclude that the service performance measures have been appropriately stated and are free from material misstatement.
- Checked whether all mandatory performance measures stipulated by the Non-Financial Performance Measures rules 2013 have been reported appropriately.
- Provided feedback on the overall annual report and the summary annual report.

As a result of this work we noted instances whereby certain measures that rely on the customer services requests have been calculated incorrectly due to either data capturing or processing errors. Whilst the impact of these errors were not material to the reported results, we have nevertheless recommended four adjustment to the reported performance of Council (see Audit Differences section) which have been adjusted by management. We are satisfied that the performance reporting fairly reflects the Council's performance against the measure and targets outlined in the Long Term Plan.

### Area of focus

Core controls over operating expenditure, procurement and tendering



Key areas:

- Operating expenditure  
\$51.2m
- Sensitive nature of certain expenditure

### Background

Appropriateness of the Councillor and management expenditure is an area of interest to ratepayers.

The Council's Capital works procurement programme involves significant cash flows. The Council has a range of policies that seek to ensure procurement is managed in the best interests of the Council.

Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit.

### EY perspective

We have performed the following audit procedures with regard to the controls over operating expenditure, procurement and tendering:

- Reviewed the incurrence and approval of operational expenditure.
- Reviewed the use of credit cards and whether expenditure has been incurred for a reasonable purpose.
- Reviewed the application of procurement policies.
- Reviewed areas of potential sensitivity for appropriateness.
- Obtained assurance that appropriate processes and controls over expenditure are in place.

We did not identify any matters of concern through these procedures.

### Area of focus

Employee Entitlements and other provisions



Relevant accounting standards:

- PBE IPSAS 25: *Employee Benefits*

### Background

Personnel costs represents \$28.3 million (2017: \$26.4 million) of the total operating expenditure of \$51.2 million (2017: \$48.0 million).

Employee entitlements include annual leave provisions, long service leave and retirement gratuity provisions and amounts to \$2.2 million (2017: \$2.2 million).

The Council is required to ensure that it is in compliance with the Holidays Act.

Local authorities are required to disclose information about severance payments in the annual report.

Remuneration of Council members is required to be determined in accordance with the Remuneration Authority guidelines.

### EY perspective

- We have undertaken control testing over the payroll processes and controls utilised by management, including controls around the integrity of reporting.
- We have assessed the accuracy of recognised employee entitlements at year end and have sample tested their recognition and measurement to contractual entitlements.
- We have carried out detailed analytical procedures to validate that payroll cost movements have been in line with expectations.
- Through the examination of significant one-off payments to employees we have reviewed if any severance payments were made throughout the year along with the disclosure of these payments. Council paid \$16k (2017: 7k) for severance payments during the year.
- We have tested a sample of employees' leave calculations.
- We have reviewed the level of Council member remuneration against the notice from the Remuneration Authority. We did not identify any matters which indicated concerns with regards to Council member remuneration.

## Area of focus

### Calculation of the Landfill After Care Provision



#### Key areas:

- Completeness of the provision
- Assumptions used in the discounted cash flow model

#### Relevant accounting standards:

PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

## Background

Council currently operates the Otaihanga landfill and also manage the Otaki and Waikanae sites which are now closed. Council has a responsibility under the resource consent to provide ongoing maintenance and monitoring of the landfill after closures. Therefore, Council is obliged to recognise a provision in relation to the closure and aftercare of the landfill in line with PBE IPSAS 19.

The Otaki and Waikanae landfills are fully closed and the Otaihanga landfill is closed for general waste disposal, however, will continue to accept cleanfill until final closure on 30 June 2026.

Aftercare responsibilities include the final cover application and planting of vegetation, drainage control features, monitoring of water quality and gas emissions.

Assumptions used in the calculation could be subject to significant fluctuation.

The provision for closure costs is determined by calculating the present value of the estimated future cash flows relating to closing the landfill and the necessary aftercare costs. In determining the present value of the future cash flows, management have used an average discount rate of 1.57% (2017:0%). The Council's calculation for the provision is based on an average inflation rate of 2.61% (2017: 2.45%) of annual costs from 2019 to 2056.

## EY perspective

- As of 1 July 2013, Otaihanga was closed to general waste disposal, but will continue to accept cleanfill until final closure on 30 June 2026. In 2017 KCDC engaged Jacobs New Zealand Limited, an external engineering firm, who conducted a review of the landfill capping costs and engineering assumptions used by management in arriving at the provision. We have examined the adequacy of future costs based on recent Council cost experience and concluded that nominal cash flow is not materially different to that estimated by the external consultant.
- We considered the assumptions underlying the provision and are satisfied they appear reasonable. We acknowledge there is subjectivity and judgement involved in determining the appropriate discount rate for calculating the provision. Given the establishment of more certainty of the nominal cash flows as result of third party reviewing the nominal cash flows, management have adjusted the discount rate from 0% to 1.57% (being the risk free rate adjusted down for any remaining uncertainty over the estimated nominal cash flow).
- The provision is a fair reflection of the Council's future liability based on the current estimate of the closure date and costs. Our procedures included obtaining assurance over the present value calculations, inquiries of engineers in respect of landfill's capacity and expected future cost and ensuring appropriateness of unwinding of the provision and related asset in the financial statements.
- We have assessed whether disclosures in the financial statements are appropriate.
- An impairment of the landfill assets of \$165k was recognised in the current year. This primarily relates to the closed Waikanae and Otaki landfill sites where no future economic benefit is expected to be obtained.



# Audit differences



# Audit differences

## Summary of audit differences – financial statements

During the audit we identify differences between amounts that should be recognised and disclosed in the financial statements and amounts actually recorded. We identified and aggregated any differences greater than \$80,000 ('reporting threshold') on our summary of audit differences.

We report to the Committee the adjusted and unadjusted differences recorded on our summary. Those charged with governance will represent to us in writing that all uncorrected misstatements that they are aware of, have been brought to our attention.

We have summarised the audit differences that remain unadjusted by management during the audit in the following table.

Account	Income statement (Increase) / Decrease	Net assets (Decrease) / Increase
	30 June 2018 \$000	30 June 2018 \$000
Income from vested assets	145	
Other payables		(145)
<i>To correct recognition of revenue from assets vested to the Council as part of the Kapiti Expressway project</i>		
Net impact before tax	145	(145)

There are no adjusted audit differences relating to the financial statements.

## Summary of audit differences – statement of service performance

During the audit of the statement of service performance, we identified and aggregated any differences in performance measures based on a materiality of 2%. We have summarised below the audit differences determined during the audit which have subsequently adjusted by management:

Measure	KCDC result	EY result	Change
Median response times to a fault or unplanned interruption to our water network measured by resolution time (from the time that council receives notification to the time that staff confirm resolution) (urgent and non-urgent)	323 minutes	346.5 minutes	23.5 minutes
Median response times to a fault or unplanned interruption to our water network measured by resolution time (from the time that council receives notification to the time that staff confirm resolution) (non-urgent)	66 minutes	68 minutes	2 minutes
Median response times to sewage overflows resulting from a blockage or other fault measured by resolution time (from the time council receives notification to the time that staff are on site)	122 minutes	126 minutes	4 minutes
Percentage of service requests relating to roads and footpaths responded to within 24hours of notification	100%	60%	40%

At the time of writing, we are still finalising our audit of certain performance reporting measures which may give rise to further audit adjustments. We will update the Committee if additional audit adjustments in relation to the performance reporting are identified.





# Assessment of control environment

# Assessment of control environment

## Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal controls, we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

The following table provides an overview of the number of observations and the risk ratings we have identified.

	High	Moderate	Low
Open at 30 June 2017	4	0	2
Closed during FY18	(4)	0	(2)
New points raised in FY18	0	0	6
Total open points as at 30 June 2018	0	0	6

### Key:

- " A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
- " Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should normally be taken within 6 months.
- " Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within 3 months.

We have not identified any significant deficiencies in internal controls as it relates to the financial statements and performance information. A detailed Report on control findings, including management comments, due date and person responsible for resolution has been prepared and distributed.

## IT environment

In 2015, we reviewed the core financial IT applications at the Council to assess whether we were able to rely on the IT general controls relating to the general ledger system. As a result of the work performed, we noted weaknesses in the IT environment which resulted in us concluding that we could not place reliance on the IT environment general controls (Change Management and Logical Access).

This year our approach has been to reassess the IT control environment. We assessed the design of the key IT General Controls in order to provide management with a view on the robustness of the current control environment. From this work we noted significant improvements to IT controls and have provided management with some further recommendations of a more minor nature.



# Appendices

# Appendix A – Other required Audit Committee communications

Auditing Standards require us to report to you certain matters that are not otherwise detailed in this report.

Matter	How matter was addressed
Material uncertainties and going concern	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Kapiti Coast District Council's ability to continue as a going concern for 12 months from the date of our report.
Disagreements with management	During our audit we received full cooperation from management and had no unresolved disagreements over the application of accounting principles, the scope of our audit or disclosures included in the financial statements and service performance information.
Compliance with laws and regulations	We have not identified any material instances of non-compliance with laws and regulations.
Fraud and illegal acts	<p>We have made enquires of management regarding:</p> <ul style="list-style-type: none"> <li>• Knowledge of any fraud or suspected fraud affecting the Council involving management or employees who have significant roles in internal control; or others where fraud could have a material effect on the financial statements and service performance information; and</li> <li>• Knowledge of any allegations of fraud, or suspected fraud, affecting Kapiti Coast District Council's financial statements and service performance information.</li> </ul> <p>We did not become aware of any fraud or illegal acts during our audit.</p>
Expected modifications to audit report	<p>We anticipate issuing an unmodified audit report on the financial statements and service performance information for the year ended 30 June 2018 subject to the satisfactory resolution of the outstanding matters detailed in this report.</p> <p>A draft copy of our audit report has been included at Appendix D.</p>
Review of Council Minutes	We have completed a review of the minutes of Council meetings held during the year. Based on that review we have not identified any financial or non-financial matters that would result in a significant effect on the 2017/2018 results that have not been reflected in the financial statements and service performance information.
Independence	We confirm that we have complied with the OAG's professional standards, and in our professional judgement, the engagement team and the Firm are independent and we are in a position to issue our Independence Declaration, which is included at Appendix B. We are not aware of any other relationships between EY and Kapiti Coast District Council that, in our professional judgement, may reasonably be thought to bear on independence.



# Appendix B – Independence

We confirm that in our professional judgment the engagement team and the Firm are independent.

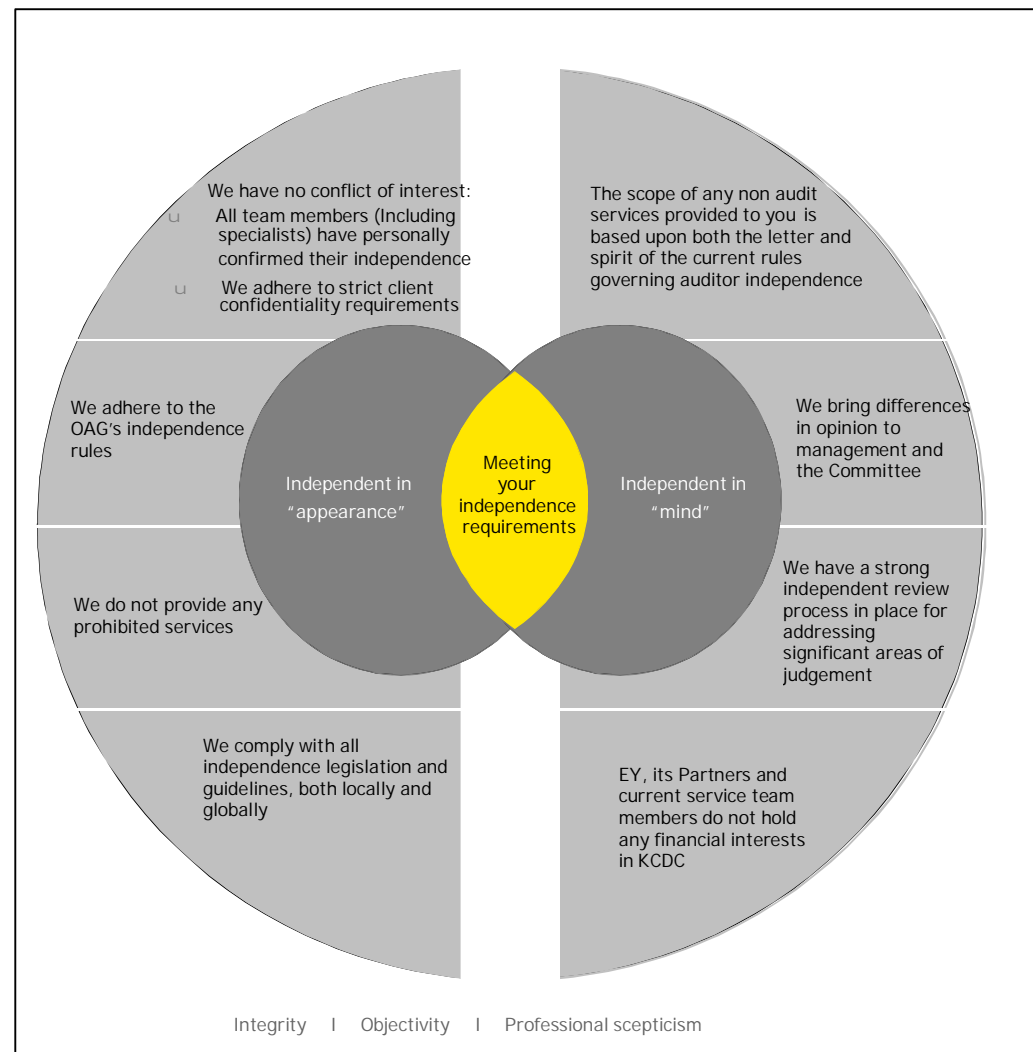
We are satisfied that all EY locations world-wide which have provided services in the past or are currently providing services to Council have complied with the relevant independent requirements. We are satisfied that the services provided by EY during the year ended 30 June 2018 do not impact our independence.

We are not aware of any relationships between the Firm or other firms that are members of the global network of EY firms and Council that, in our professional judgment, may reasonably be thought to bear on independence.

We highlight the following services that we have performed during the year:

Description of relationship or service and related independence concern	Period provided/duration	Fees	Safeguards adopted and details of any follow up actions
Audit of the 2018-38 Long term plan	FY18	\$119k	Independent assurance services
Debenture Trust Deed reporting	FY18	\$3k	Independent assurance services
Total fees		\$121k	

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. Our audit fee for the statutory audit of Council is \$175k excluding disbursements.



# Appendix C – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Annual Report	Our review of the final version of the Annual Report	EY
Representation Letter	Receipt of a signed representation letter	Council
Summary Annual Report	Review of Summary Annual Report	EY / Management
Post Balance Sheet Review	Completion of our post balance date events review	EY
Debenture Trust Deed Reporting Certificate	Finalisation of our review of the Debenture Trust Deed Reporting Certificate	EY
Service Performance Reporting	Concluding on matters identified during our review	Management / EY
Other income	Finalising our review of the other income	EY
Journal entry testing	Completion of our review of a sample of journal entries selected for testing	EY / Management

These procedures are currently being completed and we will update the Committee on the resolution of these matters at the Committee meeting scheduled for 13 September 2018.

We expect that the following matters will be outstanding at the time of the Committee meeting:

- u Receipt of final signed financial statements; and
- u Receipt of signed letter of representation.

# Appendix D – Draft Audit report on the full annual report

## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF KAPITI COAST DISTRICT COUNCIL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of Kapiti Coast District Council (the Council). The Auditor-General has appointed me, David Borrie, using the staff and resources of Ernst & Young, to report on the information in the Council's annual report that we are required to audit under the Local Government Act 2002 (the Act). We refer to this information as "the audited information" in our report.

We are also required to report on:

- whether the Council has complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- the completeness and accuracy of the Council's disclosures about its performance against benchmarks that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

We refer to this information as "the disclosure requirements" in our report.

We completed our work on xx September 2018. This is the date on which we give our report.

#### Opinion on the audited information

In our opinion:

- the financial statements on pages xx to xx and pages xx to xx:
  - present fairly, in all material respects:
    - the Council's financial position as at 30 June 2018;
    - the results of its operations and cash flows for the year ended on that date; and

- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Reporting Standards;
- the funding impact statement on page xx, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Council's annual plan;
- the statement of service provision of the District Council (referred to as "Our activities and services") on pages xx to xx:
  - presents fairly, in all material respects, the Council's levels of service for each group of activities for the year ended 30 June 2018, including:
    - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved;
    - the reasons for any significant variation between the levels of service achieved and the intended levels of service; and
- complies with generally accepted accounting practice in New Zealand; and
- the statement about capital expenditure for each group of activities on pages xx to xx, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the Council's annual plan; and
- the funding impact statement for each group of activities on pages xx to xx, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Council's Long-term plan.

#### Report on the disclosure requirements

We report that the Council has:

- complied with the requirements of Schedule 10 of the Act that apply to the annual report. These disclosures accurately reflect information drawn from the Council's audited information, long-term plan or annual plan; and

- made the disclosures required by the Local Government (Financial Reporting and Prudence Regulations 2014) about its performance against benchmarks on pages xx to xx. These disclosures are complete and accurately reflect the information drawn from the Council's audited information.

#### Basis for opinion on the audited information

We carried out our audit 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 New Zealand Auditing and Assurance Standards Board. We describe our responsibilities under those standards further in the "Responsibilities of the auditor for the audited information" section of this report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the audited information.

#### Responsibilities of the Council for the audited information

The Council is responsible for meeting all legal requirements that apply to its annual report.

The Council's responsibilities arise under the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare the information we audit that is free from material misstatement, whether due to fraud or error.

In preparing the information we audit the Council is responsible for assessing its ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to amalgamate or cease all of the functions of the Council or there is no realistic alternative but to do so.

#### Responsibilities of the auditor for the audited information

Our objectives are to obtain reasonable assurance about whether the audited information, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of this audited information.

For the budget information reported in the audited information, our procedures were limited to checking that the budget information agreed to the Council's annual plan.

We did not evaluate the security and controls over the electronic publication of the audited information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the audited information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.
- We determine the appropriateness of the reported intended levels of service in the statement of service provision of the District Council (referred to as "Our activities and services"), as a reasonable basis for assessing the levels of service achieved and reported by the Council.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Council and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the audited information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the audited information, including the disclosures, and whether the audited information represents, where applicable, the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### Other Information

The Council is responsible for the other information included in the annual report. The other information comprises the information included on pages xx to xx and xx to xx, but does not include the audited information and the disclosure requirements.

Our opinion on the audited information and our report on the disclosure requirements do not cover the other information.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the audited information and the disclosure requirements, or our knowledge obtained during our work, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Independence

We are independent of the 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 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to our audit and our report on the disclosure requirements, we have carried out engagements in the areas of debenture trust reporting and the Long Term Plan audit, which are compatible with those independence requirements. Other than these engagements we have no relationship with or interests in the Council.

David Borrie  
Ernst & Young  
On behalf of the Auditor-General  
Wellington, New Zealand

# Appendix E – Draft Audit report on the summary annual report

## INDEPENDENT AUDITOR'S REPORT TO THE READERS OF KAPITI COAST DISTRICT COUNCIL'S SUMMARY OF THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

The summary of the annual report was derived from the annual report of the Kapiti Coast District Council (the "District Council") for the year ended 30 June 2018.

The summary of the annual report comprises the following summary statements on pages xx to xx:

- the summary statement of financial position as at 30 June 2018;
- the summaries of the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended 30 June 2018;
- the notes to the summary financial statements that include accounting policies and other explanatory information; and
- the summary statement of service performance.

### Opinion

In our opinion:

- the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the annual report; and
- the summary statements comply with PBE FRS-43: *Summary Financial Statements*.

### Summary of the annual report

The summary of the annual report does not contain all the disclosures required by generally accepted accounting practice in New Zealand. Reading the summary of the annual report and the auditor's report thereon, therefore, is not a substitute for reading the full annual report and the auditor's report thereon.

The summary of the annual report does not reflect the effects of events that occurred subsequent to the date of our auditor's report on the full annual report.

The full annual report and our audit report thereon

We expressed an unmodified audit opinion on the information we audited in the full annual report for the year ended 30 June 2018 in our auditor's report dated xx.

Council's responsibility for the summary of the annual report

The Council is responsible for preparing the summary of the annual report which includes preparing summary statements, in accordance with PBE FRS-43: *Summary Financial Statements*.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the full annual report and whether the summary statements comply with PBE FRS 43: *Summary Financial Statements*.

Our opinion on the summary of the annual report is based on our procedures, which were carried out 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 New Zealand Auditing and Assurance Standards Board.

In addition to our audit and our report on the disclosure requirements, we have carried out engagements in the areas of debenture trust reporting and the Long Term Plan audit, which are compatible with those independence requirements. Other than these engagements we have no relationship with or interests in the District Council.

David Borrie,  
Ernst & Young  
On behalf of the Auditor-General  
Wellington, New Zealand  
xx September 2018

# Appendix F – Draft Representation Letter full annual report

[KCDC's letterhead]

[Date annual report is adopted]

David Borrie  
Ernst & Young  
PO Box 490  
Wellington 6140

## REPRESENTATION LETTER FOR THE YEAR ENDED 30 JUNE 2018

This representation letter is provided in connection with your audit, carried out on behalf of the Auditor-General, of the financial statements and statement of performance of Kapiti Coast District Council ("the Council") for the year ended 30 June 2018 for the purpose of expressing an independent opinion about whether:

The financial statements:

- present fairly, in all material respects:
  - the financial position as at 30 June 2018; and
  - the financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

The statement of performance:

- presents fairly, in all material respects, the performance for the year ended 30 June 2018, including:
  - the performance achievements as compared with forecasts included in the annual plan for the financial year; and
  - the actual revenue and expenses as compared with the forecasts included in the annual plan for the financial year.
- complies with generally accepted accounting practice in New Zealand.

We understand that your audit was carried out in accordance with the Auditing Standards issued by the Auditor-General, which incorporate the International Standards on Auditing (New Zealand).

General representations

To the best of our knowledge and belief:

- the resources, activities, under our control have been operating effectively and efficiently;
- we have complied with our statutory obligations including laws, regulations, and contractual requirements;
- we have carried out our decisions and actions with due regard to minimising waste;
- we have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector (that is, we have carried out our decisions and actions with due regard to probity); and
- any decisions or actions have been taken with due regard to financial prudence.

We also acknowledge that we have responsibility for designing, implementing, and maintaining internal control (to the extent that is reasonably practical given the size of Kapiti Coast District Council) to prevent and detect fraud.

Representations on the financial statements and the statement of performance

We confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements and statement of performance, and that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

- we have fulfilled our responsibilities for preparing and presenting the financial statements and the statement of performance as required by the Local Government Act 2002 and, in particular, that:

The financial statements:

- present fairly, in all material respects:

- the financial position as at 30 June 2018; and
- the financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

The statement of performance:

- presents fairly, in all material respects, the performance for the year ended 30 June 2018, including:
  - the performance achievements as compared with forecasts included in the annual plan for the financial year; and
  - the actual revenue and expenses as compared with the forecasts included in the annual plan for the financial year.
- complies with generally accepted accounting practice in New Zealand.
- we believe the significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable;
- we have appropriately accounted for and disclosed the related party relationships and transactions in the financial statements;
- we have adjusted or disclosed all events subsequent to the date of the financial statements and the statement of performance that require adjustment or disclosure; and
- we believe the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements and statement of performance as a whole. A list of the uncorrected misstatements is attached to this representation letter.
- we have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. Where applicable, such litigation and claims have been accounted for and disclosed in accordance with Public Benefit Entity Reporting Standards.

#### Representations about the provision of information

We confirm that, to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves:

- we have provided you with:

- all information, such as records and documentation, and other matters that are relevant to preparing and presenting the financial statements and the statement of performance; and
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- we have disclosed to you the results of our assessment of the risk that the financial statements and statement of performance may be materially misstated as a result of fraud;
- we have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements and the statement of performance.
- we have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements and statement of performance communicated by employees, former employees, analysts, regulators, or others;
- we have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements and the statement of performance;
- we have provided you with all the other documents ("other information") which will accompany the financial statements and the performance information which are consistent with one another, and the other information does not contain any material misstatements.
- we have disclosed the identity of the related parties, all of their relationships, and all of their transactions of which we are aware.

#### Going concern basis of accounting

We confirm that, to the best of our knowledge and belief, the Kapiti Coast District Council has adequate resources to continue operations at its current level for the foreseeable future. For this reason, the Council continues to adopt the going concern basis of accounting in preparing the financial statements and the statement of performance for the year ended 30 June 2018. We have reached this conclusion after making enquiries and having regard to circumstances that we consider likely to affect the Kapiti Coast District Council during the period of one year from date of signing the financial statements and the statement of performance, and to



circumstances that we know will occur after that date which could affect the validity of the going concern basis of accounting.

We consider that the financial statements and the statement of performance adequately disclose the circumstances, and any uncertainties, surrounding the adoption of the going concern basis of accounting by the Kapiti Coast District Council.

Throughout the year, the Kapiti Coast District Council has complied with the requirements of its banking arrangements, debenture trust deeds, or negative pledge agreements, including those relating to its net tangible assets ratios.

The representations in this letter are made at your request, and to supplement information obtained by you from the records of the Kapiti Coast District Council and to confirm information given to you orally.

Yours faithfully

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Mayor

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Chief Executive

#### Uncorrected Misstatements

Account		
Income from vested assets	145,000	
Other payables		-145,000
<i>To correct recognition of revenue from assets vested to the Council as part of the Kapiti Expressway project</i>		

# Appendix G – Draft Representation Letter summary annual report

(To be printed on the KCDC's Letterhead)

XX September 2018

David Borrie  
Partner  
Ernst & Young  
PO Box 490  
Wellington 6140

Dear David

REPRESENTATION LETTER ON SUMMARY ANNUAL REPORT FOR THE YEAR ENDED 30  
JUNE 2018

This representation letter is provided in connection with the summary financial statements for the year ended 30 June 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the summary financial statements comply with the PBE FRS-43: Summary Financial Statements.

We understand that the purpose of your engagement is to examine the summary financial statements, and make such enquiries as are necessary to enable you to issue the auditor's report.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

1. We have fulfilled our responsibility for the preparation of the summary financial statements in accordance with PBE FRS-43: Summary Financial Statements and believe the applied criteria are acceptable.
2. We have made the audited financial statements readily available to the intended users of the summary financial statements, when the summary financial statements will not be accompanied by the audited financial statements.

Yours faithfully,

Kapiti Coast District Council

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Mayor

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Chief Executive

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#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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