

Chairperson and Committee Members
AUDIT AND RISK COMMITTEE

21 SEPTEMBER 2017

Meeting Status: **Public**

Purpose of Report: For Information

**CLOSING REPORT FROM AUDIT FOR THE YEAR ENDED
30 JUNE 2017**

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 2017.

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 2017 at the Audit and Risk Committee meeting on 27 April 2017. 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 2017.
- 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 2016/17 Annual Report, subject to the adequate resolution of the following outstanding items:
 - The complete review of the final version of the 2016/17 Annual report.
 - Receipt of Council's signed management representation letter on adoption of the 2016/17 Annual Report by the Council on the 28 September 2017.
 - Receipt and review of Council's Draft Summary Annual Report
 - Completion of post balance sheet events review to the date of signing the audit report.
 - Completion of minor outstanding audit points.

Key Audit Findings

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

Asset Revaluations

- 7 During the 2016/17 financial year, Council revalued its roading assets (including land under roads) and above ground assets. The revaluation resulted in an increase in asset value of \$114.5 million
- 8 Audit performed a number of audit procedures with the regards to the revaluation process and was satisfied that council has undertaken quality assurance procedures to ensure that the valuations were appropriate and reliance could be placed on the work of the valuers.
- 9 However, management's asset revaluation due diligence review did not identify an error in the Roding Asset Valuation report provided by the external valuer. The report excluded carpark formations of \$1.47 million from the total value. Management agreed with this finding and has since corrected this error in the financial statements.

Landfill Aftercare Provision

Inflation adjustment error

- 10 As a result of the audit work performed on the landfill after-care capping and monitoring costs, audit identified that the inflation rate that applied to the future nominal cash flows was not compounded, resulting in costs being understated by \$364,000. Management agreed with this finding and has since corrected this error in the financial statements.

Discount rate

- 11 Consistent with prior year, management has kept the discount rate of the landfill aftercare provision at 0%, therefore presenting the liability in the financial statements at the total cost of all future nominal cash flows pertaining to the closure and aftercare cost of the landfill. .
- 12 Management accepts Audits comments concerning the discount rate and that it should be consciously reassessed on an annual basis as changes in the risk free rate and greater certainty around the future cash flows may well support a change from 0%.
- 13 Management holds the view that there still remains uncertainty around the future landfill aftercare costs given the material changes in both the 2015/16 and 2016/17 financial years
- 14 Furthermore, management's opinion is that the provision must be reflected in the financial statements at the amount that Council would rationally pay to a willing third party buyer to transfer or settle the obligation at the reporting date. Due to the nature of the landfill after care costs, the Council would struggle to find a willing third party accepting less than the total estimated costs.

Audit Differences

- 15 The table below details the two financial audit differences identified by Audit that was agreed and adjusted by management in the draft financial statements.
- 16 The net impact of this adjustment to the Statement of Comprehensive Revenue was nil.

Audit Adjustments	Statement of Financial Position
Property, plant and equipment	\$1,467,000
Revaluation reserve	(\$1,467,000)
To correct the excluded value of carpark formations in the total revaluation value	
Landfill After- Care Asset	\$364,000
Landfill After-Care Provision	(\$364,000)
To correct the impact of the inflation rate not being compounded when calculating the inflation on the closure, monitoring and operational costs in calculating the provision	

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 Policy.

RECOMMENDATIONS

- 24 That the Audit and Risk Committee receives the Closing Audit Report from Ernst & Young and notes that there are no unadjusted audit differences in the draft financial statements or draft 2016/17 Annual Report.

Report prepared by:

**Approved for
submission:**

**Approved for
submission:**

**Anelise Horn
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Appendix 1: Ernst & Young's Closing Report to the Audit & Risk Committee for the year ended 30 June 2017.

Kapiti Coast District Council

Closing Report to the Audit and Risk Committee
for the year ended 30 June 2017

September 2017

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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 2017.

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 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.

Yours faithfully



David Borrie
Partner

Executive summary

Executive summary

Scope of the audit

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 2017 sector brief to provide reasonable assurance that the Annual Report is free of material misstatement.

Status of the audit

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 21 September 2017. We will update the Committee at that time.

Subject to the completion of the following matters we anticipate issuing an unqualified audit opinion (refer Appendix D):

- ▶ Resolution of the outstanding matters outlined at Appendix C of this report;
- ▶ Consideration by the Committee of the matters in this report; and
- ▶ Adoption by Council of the Annual Report.

Ernst & Young's independence has been confirmed by all members of our team and an Independence Declaration has been included in this report (refer Appendix B).

Areas of audit focus

In our Audit Plan we identified a number of areas of focus. Pages 6 - 12 of this report set out our perspective in relation to each of these areas.

We request you review these and other audit and accounting matters set out in this report to ensure:

- ▶ There are no further considerations or matters that could impact these issues;

- ▶ You concur with the resolution of the issues raised; and
- ▶ There are no further significant issues you are aware of to be considered before the Annual Report is finalised.

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.

Internal control environment

During the audit, we identified one observation and recommendation in relation to management's financial processes and controls. Internal control findings will be documented in a report to management following the completion of our audit. 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.

Materiality

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 2017. We have used \$1.5m in assessing any potential misstatement to the financial statements as a whole.

Audit differences

There are no unadjusted audit differences impacting the financial statements arising from our audit. Two audit differences have been identified both of which have been adjusted for by management in the financial statements.

Written representations

We have requested a letter of representation from those charged with governance. A copy of this letter is included in Appendix E and is approved at the time of adoption of the Annual Report by Council.

Areas of audit focus

Areas of audit focus

Area of focus

Infrastructure assets

Key areas:

Accounting for revaluation of the assets

Appropriateness of depreciation and remaining useful lives of assets

Relevant accounting standards:

PBE IPSAS 17 Property, Plant and Equipment

Background

Carrying value of infrastructure assets at balance date is \$1,408 million (2016: \$1,316 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 roading (including land under roads), land and buildings, parks and reserve structures were revalued and the following valuation movements were recorded:

Component	Revalued Carrying amount \$million	Revaluation movement \$million
Land, buildings and improvements	174	15
Land under roads	796	62
Roading and footpaths	293	38
Bridges	14	-1

Work-in-Progress

As at 30 June 2017, Council has a Work-In-Progress balance of \$18 million (2016: \$15million) which consisted of approximately 79 different projects.

EY perspective

Valuation

The valuations have been performed by the following external qualified valuers:

- ▶ AON Risk Solutions; Land, buildings and improvements, and Land under roads
- ▶ Stantec New Zealand Ltd (Formerly MWH); Roading assets

We have performed the following audit procedures with regard to the valuations:

- ▶ Obtained an understanding of key inputs to the valuation reports and the valuation techniques used;
- ▶ On a test basis, re-performed calculations and reconciled data used in the reports to Council ledgers;
- ▶ Obtained assurance that all assets within the asset class were included in the valuation and noted the completeness of assets valued;
- ▶ Performed procedures to obtain assurance that the valuations have been appropriately recorded in the fixed asset register and general ledger; and
- ▶ Obtained reliance letters confirming the independence of the valuers and assessed the professional expertise of the valuers.

As a result of our work we noted the Roading assets valuation report (issued by Stantec New Zealand Ltd) incorrectly excluded the value of carparks and service lanes formations of \$1.5 million. Management has corrected this error in the financial statements (refer to audit differences section).

We have reviewed significant assets not revalued during the year for impairment and discussed management's assessment for indicators of impairment at balance date. Based on this no indicators of impairment were noted.

Area of focus

Background

EY perspective

Capital additions and depreciation

We selected a sample of material infrastructure asset additions during the year and vouched these to supporting documentation and traced the fixed assets to the underlying systems such as RAMM. For the sample we obtained assurance that only costs which fulfilled the capitalisation criteria under PBE IPSAS 17 *Property, Plant and Equipment* are capitalised.

We considered the integrity of the depreciation charged on the various classes of infrastructure assets, with particular attention being placed on the water assets that were revalued in 2016 and whether the useful lives and depreciation charge for the 2017 year were 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.

Work-in-Progress

For the Work-In-Progress balance we have performed the following audit procedures:

- ▶ Obtained the detailed listing of projects and selected a sample of individual items to test the nature of the capitalised item;
- ▶ Inquired with management if any projects have exceeded budgets or have been unnecessarily delayed;
- ▶ Selected a sample of items recorded in maintenance expenditure and obtained supporting information to test if these items should be capitalised; and
- ▶ For completed projects traced the transfer through to the fixed assets register and checked these are subject to depreciation.

Work-in-Progress included various projects such as the Otaki Pool rebuild project, road resurfacing and town centre upgrades. We noted no issues with regards to the carrying value of Work-in-Progress.

Area of focus	Background	EY perspective
<p>Rates Income</p> <p>Key areas:</p> <ul style="list-style-type: none"> ▶ 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. <p>Relevant accounting standards: PBE IPSAS 23 Revenue from Non-Exchange Transactions</p>	<p>Rates income is the primary source of funding for Council. 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. This has been an area of renewed focus for Local Government over the past few years.</p> <p>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 Council forming the core of the District's revenue.</p> <p>The accuracy of rates revenue is dependent on the integrity of the rates database and the reliability of the rates billing system.</p> <p>Certain rate paying groups may represent significant collection risk.</p>	<p>Rates Strike and invoicing</p> <p>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.</p> <p>We also assessed the appropriateness of the rates strike for 2017/18 and considered the key elements of the legislative framework associated with the Rating Act and Local Government Act.</p> <p>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.</p> <p>Compliance with Ratings Act</p> <p>During the year, Council 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.</p> <p>We obtained a sample of the rates assessments for 2017/18 and noted the districtwide water supply fixed rate and the districtwide water supply volumetric rate were included on rates assessments as recommended by Council's legal advisor. Council has included a note disclosure in the annual report to describe this matter. We have obtained the financial statements for 2017 and ensured that appropriate disclosures have been included.</p> <p>Rates debtors</p> <p>Council had \$3.5 million of rates receivable due at 30 June 2017 (2016: \$3.1 million). Council has provided for \$ 0.7 million (2016: \$0.5 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.</p>

Area of focus	Background	EY perspective
<p>Recognition of New Zealand Transport Authority (NZTA) Claims and Subsidies</p> <p>Relevant accounting standards: PBE IPSAS 23 Revenue from Non-Exchange Transactions</p>	<p>Transport projects and maintenance undertaken by the Council are eligible to receive funding from NZTA. Each year, as part of the annual plan, Council agrees the Roothing work programme with NZTA. In order for roading work to be eligible for NZTA funding, it must be competitively tendered.</p> <p>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 the roading assets.</p> <p>There is a risk that KCDC will claim costs that are ineligible according to the funding requirements, thereby overstating the claim accrual at year end.</p>	<p>During the year, KCDC claimed \$4.5 million (2016: \$3.3 million) in NZTA subsidies. We have performed the following audit procedures:</p> <ul style="list-style-type: none"> ▶ Updated our understanding of the NZTA claims and subsidies process used by Council; ▶ Considered whether the income from subsidies moved in line with our expectations and understanding the related expenditure incurred; ▶ Obtained outstanding NZTA claims as at 30 June 2017 with a particular emphasis to test for existence and valuation at balance date by tying a sample of claims to supporting invoices and cash received; ▶ Obtained and reviewed supporting documentation for funding levels approved by NZTA; ▶ Obtained the transport investment online claim payment notifications received after balance date and compared the approved amount to the initial claim; and ▶ Reviewed the claims in light of the costs incurred.

Area of focus	Background	EY perspective
<p>Calculation of the Landfill After Care Provision</p> <p>Key areas:</p> <ul style="list-style-type: none"> ▶ Completeness of the provision ▶ Assumptions used in the discounted cash flow model <p>Relevant accounting standards: PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets</p>	<p>Council currently operates the Otaihanga landfill and also manages the Otaki and Waikanae sites which are now closed. Council has a responsibility under the resource consents to provide ongoing maintenance and monitoring of the landfills after closure.</p> <p>Council is obliged to recognise a provision in relation to the closure and aftercare of the landfills in line with PBE IPSAS 19. Assumptions used in the calculation could be subject to significant fluctuation.</p> <p>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. 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.</p> <p>In determining the present value of the future cash flows, management have used a discount rate of 0% (2016: 0%). The Council's calculation for the provision is based on an average inflation rate of 2.45% (2016: 2.34%) of annual costs from 2018 to 2056.</p>	<p>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. The total area to cap was 176,749 m² of which 84,000 m² or 48% has been capped and grassed as at 30 June 2017. The Council engaged Cuttriss Consultants to perform a topographical survey at the Otaihanga landfill in April 2017.</p> <p>During the current year, KCDC engaged Jacobs New Zealand Limited, an external engineering firm, to conduct a review of the landfill capping costs and engineering assumptions used by management in arriving at the provision. Management has applied a contingency for fluctuations in the costs of 10% (2016: 25%) as a result of the revised cost approach to the provision in the current year, we note that the provision is \$1.5 million higher than last year. We obtained and reviewed the results of the work performed by Jacobs and noted that they concluded that the assumptions used by management were reasonable.</p> <p>As a result of our work, we noted that the inflation rate used to adjust the estimated closure, monitoring and operational costs was not compounded and this led to an audit adjustment of \$0.4 million. This amount has been adjusted by management for financial reporting purposes (refer to audit differences section).</p> <p>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. During the year the risk free rate has increased and arguably as a result of a third party reviewing the cash flows there should be less estimation uncertainty. All else being equal both of these factors would support the discount rate increasing. We continue to view the discount rate of 0% as being within an appropriate range albeit towards the bottom of that range.</p> <p>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.</p>

Area of focus	Background	EY perspective
<p>Employee Entitlements</p> <p>Relevant accounting standards: PBE IPSAS 25: Employee Benefits</p>	<p>Personnel costs represents \$26.4 million (2016: \$25.2 million) of the total operating expenditure of \$48.0 million (2016: \$47.9 million).</p> <p>Employee entitlements include annual leave provisions, long service leave and retirement gratuity provisions and amounts to \$2.2 million (2016: \$2.1 million).</p> <p>The Council is required to ensure that it is in compliance with the Holidays Act.</p>	<ul style="list-style-type: none"> ▶ We have undertaken control testing over the payroll processes and controls utilised by management. ▶ We have assessed the accuracy of all recognised employee entitlements at year end and have sample tested their recognition and measurement to contractual entitlements. ▶ Through the examination of significant one-off payments to employees we have reviewed severance payments made throughout the year along with the disclosure of these payments. Council paid \$22,836 (2016: \$16,593) for severance payments during the year. ▶ Council's payroll system (Chris21) performs the calculation of the leave entitlement due to employees and the leave provision at balance date. We have tested a sample of employees' leave calculations noting no variances.
Area of focus	Background	EY perspective
<p>Completeness and effectiveness of the Council's non-financial performance reporting</p>	<p>We carry out testing of Council's service performance reporting against the performance objectives established by the 2015-2035 Long Term Plan (LTP) in accordance with the OAG auditing standards.</p> <p>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 Council's actual service performance for the period.</p> <p>Our work addresses the potential failure to adequately report the provision of core utility services to the public.</p>	<ul style="list-style-type: none"> ▶ We obtained the statement of service performance, identifying those objectives and performance measures we consider to be of significance in accordance with the requirements of the OAG auditing standards. ▶ For the selected measures, we obtained underlying supporting calculations and on a test basis re-performed calculations. We have not noted any variances in the reported calculations that we have tested. ▶ We have 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. ▶ We have reviewed the Annual Report and we are satisfied that the information contained is reasonable and consistent with the financial statements and with our audit findings. ▶ We have checked whether all mandatory performance measures stipulated by the Non-Financial Performance Measures rules 2013 have been reported appropriately.

Area of focus	Background	EY perspective
<p>Debt facilities and derivatives</p> <p>Relevant accounting standards: PBE IPSAS 28 Financial Instruments: Presentation</p> <p>PBE IPSAS 29 Financial Instruments: Recognition and Measurement</p> <p>PBE IPSAS 30 Financial Instruments: Disclosures</p>	<p>Public debt represents one of the main sources of funding. The value of the public debt attributable to the Council as at 30 June 2017 amounted to \$210 million (2016: \$160 million). The increase in debt in the current year is due to Council's debt pre-funding programme, as per their Treasury Management Policy. We noted that during the year, the Council has pre-funded \$60 million of \$80 million of debt maturing in December 2017 and May 2018. As at 30 June 2017, the Council has net debt of \$146 million (2016: \$142 million).</p> <p>The Council's borrowings are with the Local Government Funding Agency ("LGFA"), as the Council has sought to reduce its reliance on external parties such as banks.</p> <p>Council maintained a register of interest rate swaps to manage its exposure to interest rate fluctuations. The mark to market value of swaps amounted to a liability of \$11.4 million (2016: liability of \$18.9 million) at 30 June 2017. Fair value changes have been recorded in the Statement of Comprehensive Revenue and Expenses.</p>	<p>We carried out the following audit procedures with regard to the public debt and interest rates swaps:</p> <ul style="list-style-type: none"> ▶ Obtained an understanding of any debt facilities with the LGFA and reviewed the relevant debt facility agreements including the process for managing draw-downs. ▶ Considered long term or current classification for financial reporting disclosure purposes. ▶ Obtained third party confirmation of outstanding loan balances at year end. ▶ Obtained derivative positions in place at year end and independently valued a sample of derivative contracts in place. ▶ Obtain assurance that the 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. <p>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.</p>

Areas of audit focus

Specific public sector focus areas

These are the particular areas of the audit work where we place additional emphasis because the Council is a public entity and responsible for appropriately spending funds on the Community's behalf and acting in the Community's best interest. The table below summarises our key findings.

Area of Emphasis	Summary of Procedures and Findings
Remuneration of Council Members	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.
Sensitive Expenditure	<p>Sensitive expenditure is expenditure by a public entity that, has the potential to provide, or has the perceived potential to provide a private benefit to an individual staff member of a public entity that is additional to the business benefit to the entity of the expenditure. It also includes expenditure by a public entity that could be considered unusual for the entity's purpose and/or functions.</p> <p>The appropriateness of Councillor and management expenditure is an area of interest to ratepayers. We have reviewed a sample of areas of sensitive expenditure incurred by Council and expense claims made by Council staff.</p>
Severance Payments	We obtained a list of all severance payments for the year and have selected a sample of severance payments. We investigated the terms of the exit by the employee to determine whether an excessive severance payment was made.
Related Party Transactions	In conjunction with our review of the Council Member Interest Register, we reviewed Council's supplier listing noting that there were no unusual transactions with entities which Council Members have declared interests in. In addition, we have performed a search of the companies register for directorships and shareholdings required to be disclosed by Council Members.
Financial Reporting and Prudence Regulations	We have examined the benchmarks presented in the Annual Report and considered the consistency of these disclosures with the financial statements.
Legislative Compliance	<p>The Council operates in a highly legislated area of the economy. It is important from an audit perspective that we are made aware of any instances of non-compliance. Key areas of legislation from an audit perspective include:</p> <ul style="list-style-type: none"> ▶ Local Authorities (Members' Interests) Act 1968; ▶ Local Government Act 2002; ▶ The Local Government Financial Reporting and Prudence Regulations 2014; ▶ Local Government Official Information and Meetings Act 1987; ▶ Local Government (Rating) Act 2002; ▶ Building Act 2004; and ▶ Resource Management Act 1991. <p>We have considered the extent to which the Council maintains systems and procedures to monitor and manage its own legislative compliance.</p> <p>We reviewed both the processes KCDC has in place to ensure compliance with relevant legislation, and the actual compliance with or breaches of legislation.</p> <p>On a sample basis we have tested whether Council has complied with legislative requirements that directly affect the form, content and preparation of the financial statements, annual report and those that could have a fundamental effect on the entity's operations.</p>

Audit differences

Audit differences

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 \$75,000 (“reporting threshold”) on our summary of audit differences.

As requested, 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 adjusted by management during the audit in the following table.

Audit difference		
Account	(Decrease)/Increase of net assets	(Increase)/Decrease of Comprehensive Income
	30 June 2017 \$000	30 June 2017 \$000
<i>Transportation assets incorrectly excluded the value of carparks and service lanes formations of \$1.5 million now recorded.</i>		
Property, plant and equipment	1,467	-
Revaluation reserve	(1,467)	-
<i>Impact of the inflation rate not being compounded when calculating the inflation on the closure, monitoring and operational costs in calculating the provision for landfill aftercare</i>		
Landfill Post-closure - Assets	364	-
Landfill Aftercare Provision - Liability	(364)	-
Total	-	-

There are no errors that remain unadjusted.

A group of people are kayaking on a calm lake during sunset. The kayakers are in a yellow kayak, and the water is splashing around them. In the background, there are mountains and a forested shoreline. The sun is low on the horizon, creating a warm glow.

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.

IT environment

In 2015, we reviewed the core financial 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). We understand management continues to explore workable solutions to address the remaining findings from our review but that not all issues have yet been resolved and therefore we have not completed a review of the IT applications this year.

Once management has resolved the final outstanding issues, we will undertake a review of the updated control environment. This will likely be in mid to late 2018.

Report to Management

A detailed Report to Management of our Internal Control Findings, including management comments, due date and person responsible for resolution is being prepared for distribution to management. We have not identified internal control matters of a 'critical' or 'high' risk nature and consequently we have no matters to report to the Committee in relation to significant deficiencies in internal control.

Observations we raised last year have been addressed by management during the course of the year, except our recommendation in relation to the IT Control Environment noted above.

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"> ▶ 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 ▶ Knowledge of any allegations of fraud, or suspected fraud, affecting Kapiti Coast District Council's financial statements and service performance information. <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 2017 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 2016/2017 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 2017 do not impact our independence.

Subsequent to the year end, we have been appointed by the Council to carry out an audit of the Council's 2018-38 Long Term Plan, which is compatible with these independence requirements. We are not aware of any other 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 non-audit 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
Debenture Trust Deed reporting	FY17	\$3k	Independent assurance services
Total non-audit fees		\$3k	

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 \$172k.



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 to complete this work upon receipt of final Annual Report
Representation Letter	Receipt of a signed representation letter	Management/Council
Summary Annual Report	Review of Summary Annual Report	EY
Post Balance Sheet Review	Completion of our post balance date events review	EY
Outstanding audit procedures	Completion of minor outstanding points to complete audit work	EY

We will update the Committee on the resolution of these matters at the Committee meeting.

Appendix D – Draft Audit report

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF KAPITI COAST DISTRICT COUNCIL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

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 2017. 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 2017;
 - 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 description used for the statement of service provision 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 2017, 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 description used for the statement of service provision, 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, which are compatible with those independence requirements. Other than this engagement we have no relationship with or interests in the Council.

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

Appendix E – Draft Representation Letter

[Date Annual Report is adopted]

David Borrie
Ernst & Young
PO Box 490
Wellington 6140

Dear David

REPRESENTATION LETTER FOR THE YEAR ENDED 30 JUNE 2017

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 2017 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 2017; 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 2017, 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 the Local Government (Financial Reporting) Regulations 2011 and, in particular, that:

The financial statements:

- present fairly, in all material respects:
 - the financial position as at 30 June 2017; 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 2017, 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;
- there are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented; and
- 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 including possible non-compliance with laws for setting rates;
- 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; and

Going concern

We confirm that, to the best of our knowledge and belief, Kapiti Coast District Council has adequate resources to continue operations for the foreseeable future. For this reason, the Council continues to adopt the going concern assumption in preparing the financial statements and the performance information for the year ended 30 June 2017. We have reached this conclusion after making enquiries and having regard to circumstances that we consider likely to affect Kapiti Coast District Council during the period of one year from date of signing the financial statements and the performance information, and to circumstances that we know will occur after that date which could affect the validity of the going concern assumption.

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

Throughout the year, Kapiti Coast District Council has conformed with the requirements of its banking arrangements and debenture trust deeds, 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 Kapiti Coast District Council and to confirm information given to you orally.

Yours faithfully

Mayor

Chief Executive

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