Corp-18-473

Chairperson and Committee Members
AUDIT AND RISK COMMITTEE

3 MAY 2018

Meeting Status: **Public**

Purpose of Report: For Decision

ERNST & YOUNG AUDIT PLAN FOR THE YEAR ENDING 30 JUNE 2018

PURPOSE OF REPORT

1 This report provides the Audit and Risk Committee with a summary of the Ernst & Young Audit Plan for the year ending 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.

- *Confirming the terms of engagement for each audit with a recommendation to the Council; and receiving the external audit reports for recommendation to the Council.*
- *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) have been engaged to undertake the audit of Council's Annual Report (Summary Annual Report and Council's compliance with its Debenture Trust Deed, for the year ended 30 June 2018).

4 The Audit Plan is attached as Appendix 1. This provides an overview of the Ernst & Young audit process, including risk assessment and areas of audit focus and the audit approach.

5 Furthermore, the Audit Plan provides the Committee with an update on the 2018-2038 Long Term Plan (LTP) audit. It provides a high level overview of the audit work that was performed on Council's Consultation Document, as well as the timeline and audit focus for the Final LTP document.

6 Lastly, the Audit Plan provides a draft engagement letter which sets out the terms of engagement between the Council and Ernst & Young for the 2017, 2018 and 2019 financial years.

CONSIDERATIONS

Risk assessment and areas of audit focus

7 The areas of audit focus, which are broadly consistent with the previous year are summarised below:

- Accounting for Infrastructure assets;
- Integrity of rates setting, rates invoicing and collection considerations;

- Recognition of New Zealand Transport Authority (NZTA) claims and subsidies;
- Debt facilities and derivatives;
- Completeness and effectiveness of non-financial performance reporting;
- Council's legislative compliance;
- Core controls over operating expenditure, procurement and tendering;
- Employee entitlements and other provisions; and
- Calculation of the landfill aftercare provision.

Materiality

8 The materiality threshold has been set at $1.58 million, being 2% of forecast expenditure. Any errors impacting the operating result by more than $79,000 will be reported to the Committee.

Financial Considerations

9 The audit fee for the 2018 audit is $178,180 (excluding GST) as set out in Ernst & Young's audit proposal letter dated 10 January 2017 (Corp-17-169).

Legal Considerations

10 Any legal issues have been covered as part of this report.

Consultation

11 There are no consultation issues arising from this report.

Policy Implications

12 There are no policy implications arising from this report.

Tāngata Whenua Considerations

13 There are no tāngata whenua considerations arising from this report.

Publicity Considerations

14 There are no publicity considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

15 This matter has a low level of significance under the Council Policy.

RECOMMENDATIONS

16 That the Audit and Risk Committee receives and notes the Ernst & Young Audit Plan for the year ended 30 June 2018.

Report prepared by:	Approved for submission:	Approved for submission:
Anelise Horn **Manager, Financial Accounting**	**Janice McDougall** **Acting Group Manager Corporate Services**	**Sarah Stevenson** **Group Manager Strategy and Planning**

Appendix 1: Ernst & Young Audit Plan for the year ended 30 June 2018

Kapiti Coast District Council

Audit Plan for the year ending 30 June 2018

Building a better working world

Dear Members of the Audit and Risk Committee ("the Committee")

We are pleased to present our Audit Plan ("Plan") for the audit of the financial statements and service performance information of Kapiti Coast District Council ("KCDC" or "the Council") for the year ending 30 June 2018. This Plan outlines the scope of our services, identifies Ernst & Young ("EY") professionals that will serve you and presents our understanding of some key considerations that will affect the 30 June 2018 audit.

Our audit is designed to express an audit opinion on the 30 June 2018 full year financial statements, service performance information and information included in the Annual Report in compliance with the Local Government Act and Prudence Regulations 2014. Our Plan has been prepared based on our understanding of KCDC's operations. We have considered, and will continue to consider KCDC's current and emerging operating risks, assess those that could materially affect the financial statements and performance information and align our procedures accordingly. The Plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high quality audit you expect.

Our commitment to quality will be reflected in every aspect of our work. If you have any questions or comments, please contact me on +64 21 923 431. We look forward to discussing our Plan with you at the Audit & Risk Committee meeting on 3 May 2018.

Yours faithfully

David Borrie
Partner

Executive summary

Executive summary

Risk assessment and areas of audit focus

As part of our risk assessment process we have met with management to understand the key changes in KCDC's operations and adapted our audit approach accordingly.

Our key focus areas have been summarised below and explained in detail on pages 5 – 10. They remain broadly consistent with those set out in 2017. However, they are also reflective of changes occurring in the District:

- Accounting for infrastructure assets;
- Integrity of rates setting, rates invoicing and collection considerations;
- Recognition of New Zealand Transport Authority (NZTA) Subsidies;
- Debt facilities and derivatives;
- Completeness and effectiveness of non-financial performance reporting;
- Legislative compliance;
- Core controls over operating expenditure, procurement and tendering;
- Employee Entitlements and other provisions;
- Calculation of the landfill after care provision; and
- Sector specific areas of focus.

Additional risks may emerge over the course of time as current facts and circumstances change. These risks will be factored into our reporting to you and the design of our audit procedures.

Audit approach

We note the audit approach remains broadly the same as that set out for 2017. We seek to test your controls in the key financial statement processes and therefore expect to take a controls based approach where possible. Details of our controls based approach are outlined in detail on page 12. The nature and extent of our controls testing is dependent on and considers whether the IT general controls environment is operating effectively. There continues to be a substantive approach taken in relation to valuation of infrastructure assets, the financial statement close process, other Income (fees and charges and NZTA Funding), accruals, debt facilities and derivatives.

Materiality

Our audit is planned to obtain reasonable assurance of detecting misstatements that we believe could be, individually or in aggregate, material to the financial statements.

Our materiality threshold has been set at $1.58m being 2% of forecasted expenditure as set out in the 2017/18 Annual Plan. We will continue to report to the Audit & Risk Committee errors impacting surplus/deficit by more than $79,000.

Tolerances will be set individually for each significant performance measure.

Your EY team

David Borrie will continue to lead the EY audit team. David will be assisted by Ahmed Sofe as Senior Manager on the engagement.

Marcus Henry will continue to be the engagement quality reviewer and will provide continuous development and challenge to our audit process and findings and will provide an independent view on significant matters of judgement.

The core of our 2017 audit team will return to carry out the audit in 2018 as we understand the importance of maintaining a strong understanding of the organisation in addition to introducing fresh ideas.

Details of our full team are outlined on page 17.

Independence

We remain in compliance with the NZICA Code of Ethics' and the Professional and Ethical Standard 1: *Code of Ethics for Assurance Practitioners'* independence requirements and OAG's regulations relating to Auditor Independence, and in our professional judgment, the engagement team and the Firm are independent. We have the appropriate controls in place to ensure we remain independent throughout the audit.

Engagement execution and reporting

We continue to regularly engage with the finance team and management as part of our audit planning and execution. We have set out on page 21 a summary of our communication and deliverables throughout the audit.

Audit fee

Audit fees for the 2018 financial year were agreed in the audit proposal letter dated 10 January 2017 and are as follows:

	$'000s
Audit fees and disbursements	166
OAG overhead	12
Total audit fees	178

Risk assessment and areas of audit focus

Risk assessment and areas of audit focus

Areas of audit focus

Areas of audit focus	Our perspective	Work to be performed

Accounting for infrastructure assets	• Infrastructure assets dominate KCDC's balance sheet and the total carrying value of the infrastructure assets at 30 June 2017 was $1,408m.
	• Infrastructure assets are held at fair value less accumulated depreciation and are re-valued on a systematic basis. In line with KCDC's accounting policy, the following infrastructure assets are scheduled to be revalued as at 30 June 2018.
	  – Water;
	  – Wastewater;
	  – Stormwater; and
	  – Seawalls and river control assets.
	• The valuation of infrastructure assets is highly judgmental and there are a number of key assumptions that the valuer is required to make based on their experience in the field. Each of these judgements have the potential to materially impact the resulting valuation (and future depreciation).
	• Valuation adjustments arising from significant movements in market values for land or replacement costs may be material.
	• There is a risk of:
	  – The useful life assumptions used in the valuation reports not being reflective of up to date information maintained in the KCDC's Asset Management systems.
	  – Inappropriate depreciation rates.
	• The integrity of the classification of maintenance and/or capital expenditure is important given the nature and useful life of work carried out. This is particularly relevant to expenditure incurred on roading and pipeline assets.
		• For asset classes that have been revalued this year we will review the valuations for appropriateness and will obtain a reliance letter from the independent valuer engaged by KCDC. In particular we will review key inputs to the valuation and discuss valuation techniques for appropriateness.
		• We will assess whether the asset information provided to the valuer is reflective of the asset data maintained in the Council's Assets management systems and asset registers.
		• We will obtain assurance that all assets within the asset class were included in the valuation to ensure the completeness of the assets valued.
		• Perform procedures to obtain assurance that the valuations have been appropriately recorded in the fixed asset register and general ledger.
		• For asset classes that are not revalued in the current year, we will review the assumptions underlying the historical valuation against current asset management plans to assess whether they are still appropriate.
		• We will review and test the year end reconciliation and roll forward of the Fixed Assets Register to the general ledger, including additions, disposals and depreciation.
		• We will obtain assurance in relation to the appropriateness of Work in progress (WIP) cut-off at balance date and confirm that the carrying value of WIP is supportable in relation to both valuation and the nature of cost incurred is in line with PBE IPSAS 17.
		• For completed WIP projects, we will trace the transfer through to the fixed assets register and check that these projects are subject to depreciation.
		• Review of capitalised costs and maintenance expenditure to obtain assurance over the accuracy of cost classification.
		• We will review cut off at year end for capital works to check whether it is consistent with work completed at that point.
		• We will review other significant additions and disposals of assets during the year.
		• We will review significant asset impairments and management's assessment for indicators of impairment and consider whether any other indicators may be present.
		• We will review the appropriateness of depreciation recognised against the estimated useful life in the KCDC's latest valuation and other supporting information.

Areas of audit focus	Our perspective	Work to be performed
		• Assess capital projects for their impact upon capital commitments and other related disclosures.
Integrity of rates setting, rates invoicing and collection considerations	• 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 legal. 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. 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.	• We will review KCDC's procedures for ensuring the rates set is are compliance with the Local Government Rating Act and test that the rates set are being applied appropriately to the rating database and invoiced accordingly. • We will test the accuracy of the use of underlying valuation information (as prepared by Quotable Value) within the rating database and its application to the rates that were set. • On a sample basis we will undertake a review of the billing to specific ratepayers and subsequent collection. • For a sample of water rates invoiced we will agree the amounts to supporting information and trace the cash received to bank statements. • We will review any provision for doubtful rates debtors to consider whether it is appropriate in the circumstances. • We will obtain a sample of the rates assessments for 2018/19 and check that the recommendations made by Council's legal advisor continue to be applied.
Recognition of New Zealand Transport Authority (NZTA) Subsidies	• Transport projects and maintenance undertaken by KCDC are eligible to receive funding from NZTA. Every three years, KCDC agrees the Roading 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.	• We will review the claim process and controls system (approvals, checking and reconciliations) utilised by KCDC to support claims made to NZTA and obtain assurance that roading work is competitively tendered. • We will consider whether income from subsidies moves in line with our expectations and our understanding of the related costs incurred. • We will review 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 will assess the year end accrual for NZTA revenue to obtain assurance that the amount recognised for claims made post 30 June 2018 related to the 2018 financial year. • We will obtain and review supporting documentation for funding levels approved by NZTA. • We will carry out an assessment of the reasonability of NZTA income and its completeness in consideration of the level of costs incurred for the period.

Areas of audit focus	Our perspective	Work to be performed
Debt facilities and derivatives	• 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 2017 was $210 million. • The increased debt level in 2017 is a reflection of KCDC's debt pre-funding programme in line with the Council's Treasury Management Policy. During 2017, KCDC pre-funded $60 million of $80 million of debt maturing in December 2017 and May 2018. • KCDC accesses to 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 also maintain interest rate swaps to manage the Council's exposure to interest rate fluctuations. These swaps are carried at fair value.	• We will obtain an understanding of debt facility agreements maintained in the year and review the relevant debt facility agreements including the process for managing drawdowns. • We will obtain third party confirmation of outstanding debt and swap positions at year end. • We will consider the term or current classification of the debt. • Confirm derivative positions in place at year end and consider revaluing a sample of contracts depending on materiality. • Review disclosures associated with the debt and swap positions held. • Check Debt held is in line with the policies set down in KCDC's Long Term Plan. • Assess whether KCDC is in compliance with reporting requirements and debt covenants. • Complete the debenture trust deed required procedures and reporting.

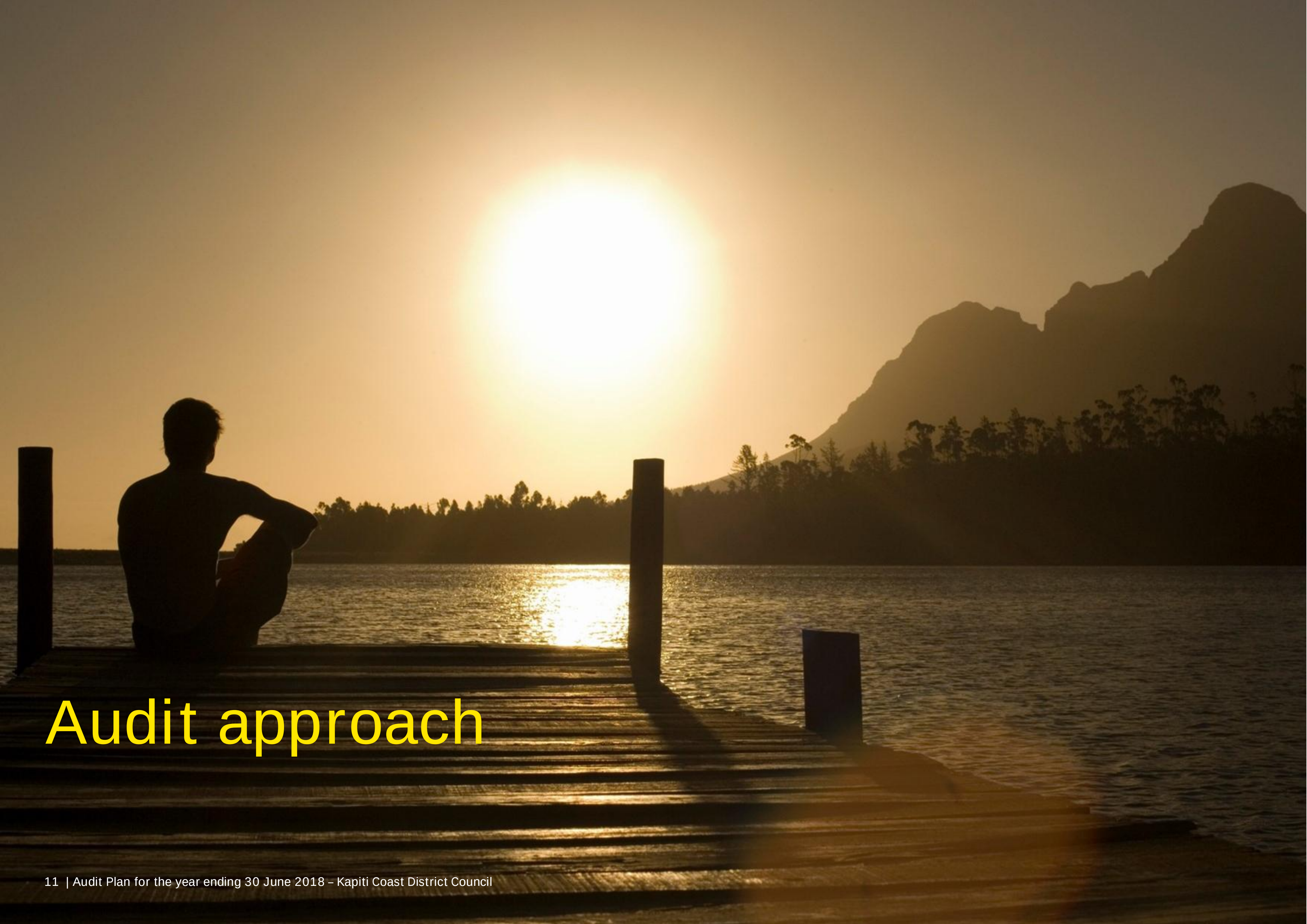
Completeness and effectiveness of the Council's non-financial performance reporting	• The Council is required to report its performance against levels of service expectations and performance measures included in the Long Term Plan (LTP). These measures are key to the Council providing a "performance 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 and Council has revisited the appropriateness of the 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 will consider the entire Annual Report as part of our feedback to management.
	  – Water
	  – Access and Transport
	  – Coastal Management
	  – Wastewater
	  – Stormwater
	  – Solid waste
	  – Parks and Open spaces
		• We will update our understanding of key performance reporting processes and review the collation methodologies applied by the Council.
		• We will examine, 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.
		• We will assess completeness and adequacy of performance monitoring procedures.
		• Assess the completeness and effectiveness of the performance framework utilised including at an Outcome level.
		• We will check whether all mandatory performance measures stipulated by the Non-Financial Performance Measures rules 2013 have been reported appropriately.
		• Provide feedback on the overall annual report and the summary annual report.

Areas of audit focus	Our perspective	Work to be performed

KCDC's legislative compliance	• KCDC operates in a highly legislated area. 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:
	  – Local Government Act 2002;
	  – Local Government (Rating) Act 2002;
	  – The Local Government Financial Reporting and Prudence Regulations 2014;
	  – Local Government Official Information and Meetings Act 1987;
	  – Local Authorities (Members' Interests) Act 1968;
	  – Building Act 2004; and
	  – Resource Management Act 1991.
		• We will consider the extent to which KCDC maintains systems and procedures to monitor and manage its own legislative compliance;
		• We will review both the processes the Council has in place to ensure compliance with relevant legislation, and the actual compliance with or breaches of legislation;
		• We will review and test on a sample basis that the 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.

Core controls over operating expenditure, procurement and tendering	• 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. • Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit.	• We will review the incurrence and approval of operational expenditure. • We will review the use of credit cards and whether expenditure has been incurred for a reasonable purpose. • We will review the application of procurement policies. • We will review areas of potential sensitivity for appropriateness. • Obtain assurance that appropriate processes and controls over expenditure are in place. • For key contracts tendered during the year, we will establish an understanding of how the tendering process was managed and the compliance with KCDC's tendering policies and good practice.
Employee Entitlements and other provisions	• Employee entitlements could be misstated or incorrect entitlements paid. • Payroll systems may not appropriately record employee expenses in the general ledger. • Local authorities are required to disclose information about employee costs, pay rate levels and severance payments in the annual report.	• We will undertake control testing over the payroll processes and controls utilised by management, including controls around the integrity of reporting. • We will assess the accuracy of recognised employee entitlements at year end and verify their recognition and measurement to contractual entitlements. • We will carry 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 will review if any severance payments are made throughout the year along with the disclosure of these payments. • We will test a sample of employees' leave calculations to check if the system calculates these correctly.
Calculation of the Landfill After Care Provision	• 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. 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.	• We will review the adequacy of future costs based on recent Council cost experience. • We will test assumptions (discount rates, cash flow forecasts) and test the discounting of values associated with the landfill. • We will assess whether disclosures in the financial statements are appropriate.

Areas of audit focus	Our perspective	Work to be performed
Sector specific areas of focus	• The OAG each year outlines certain areas of focus to be considered during the audit process. This year areas with relevance to our audit of the Council include: u Asset Management u Fraud risks u Compliance with rating laws u Compliance with laws and regulations u Non-financial performance measures u Elected members remuneration and allowances u Disclosure of severance payments u Sensitive expenditure u Financial Reporting and Prudence Regulations	• We will perform the following procedures in relation to these areas: u Obtain an understanding of the quality of asset management practices. u Review management's policies and procedures surrounding fraud detection and prevention. Hold discussions with management and other business/accounting process owners. Remain alert to fraud indicators throughout the performance of our audit procedures including the completion of our controls testing surrounding the expenditure and payroll process. We will also carry out analytical review procedures to obtain assurance that movements in key account balances are reasonable and in line with our expectations. u Review policies and procedures surrounding legislative compliance including the compliance with rating laws. We will hold discussions with management in relation to risk management in this area. u Sensitive expenditure testing on a judgmental basis. u Review the adequacy of disclosures in the annual report relating to severance payments and elected members remuneration and allowances. u Review the Council's policies and procedures to monitor and understand the interests of new and existing elected members', especially if they might involve contracts with the Council. u We will review the procurement process as part of our understanding of the key financial processes. We will review the contracts register and a sample of contracts to ensure the register is being appropriately maintained and contracts are being approved in accordance with the assigned authorisation limits. We will review a sample of larger/sensitive procurements including the declaration of any interests by the elected members and members of management and their appropriate approvals. u Review performance reporting in accordance with AG-4 revised (as discussed above). u We will specifically audit each prudence benchmark and check there is consistency of reporting against planned measures and the financial information underlying the financial statements.



Audit approach

Audit approach

An effective audit approach

Our audit is primarily designed to enable us to express an opinion on the fair presentation of Council's financial statements, service performance information and information included in the Annual Report in compliance with the Local Government Act and Prudence Regulations 2014. The specific terms and scope of the external audit engagement are set out in our engagement letter dated 5 April 2017.

Opinions to be issued

Full year Audit of Financial Statements & Service Performance Information

Our audit will be conducted to provide reasonable assurance as to whether the financial statements, statement of service performance and information included in the Annual Report in compliance with the Local Government Act and Prudence Regulations 2014 of the Council for the year ending 30 June 2018 are free of material misstatement.

In addition, we will issue an audit report for the summary financial statements and summary performance information. The audit report will contain an opinion that provides the same level of assurance as the audit report on the full financial statements and full performance information.

Trustee reporting

As a consequence of Council's Trust Deed under which it has raised debt, we have an obligation to provide a report to the Trustee and management at the conclusion of our audit.

Internal control environment

In accordance with the Auditor General's auditing standards, we will perform a review of the design and operating effectiveness of KCDC's significant financial recording and reporting processes.

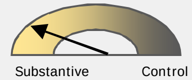
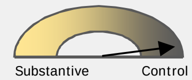
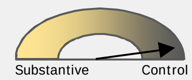
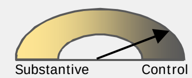
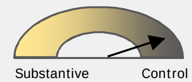
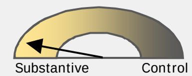
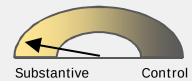
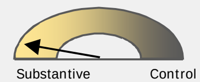
We will ensure that any significant deficiencies that come to our attention during the course of our audit are communicated to the Committee and management in a timely manner. We will revisit our 2017 control findings during our audit to check if management's responses have been implemented during the year as agreed.

We have set out to the right a table which summarizes the level of controls reliance we expect to achieve in the key financial statements processes.

IT general controls

During 2014/15 financial year we performed a review of the Information Technology General Controls (ITGCs) significant to financial reporting and provided our feedback to management. Based on our discussion with management we understand management is still in the process of addressing our findings and we intend to revisit the findings of this assessment once management is ready for our review.

Approach to key financial statement process

Process	Controls reliance
Financial statement close	
Infrastructure Assets	
Rates setting and collections	
Purchases and payables	
Cash receipts and payments	
Payroll	
Other Income (Fees and Charges & NZTA funding)	
Non-financial performance information reporting	
Debt Facilities and Derivatives	

Audit approach

Risk of fraud

The primary responsibility for the prevention and detection of fraud and error rests with those charged with the governance and management of the Council. The Council has an active program for the prevention and detection of fraud.

Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it so as to provide reasonable assurance that the financial statements are free from material misstatement resulting from fraud. Professional standards require us to perform certain procedures designed to address the risks of fraud, including the risk of management override. However, it is important to note that while our external audit work is not primarily directed towards the detection of fraud or other irregularities, we will report any matters identified during the course of our work.

We evaluate the risk of management override and consider the actions management has taken to respond to those risks. We have set out to the right out approach to fraud risks within our audit process.

We will inform the Audit & Risk Committee and management should we become aware of any actual or suspected instances of fraud as a result of our audit.

Approach to fraud risks
Identifying and evaluating controls implemented by management to address fraud, including those in respect of related party transactions
Tests of operating effectiveness of identified fraud controls
Reviewing processes in place designed to ensure that transactions are appropriately approved and recorded in the accounting records of the Council
One on one discussions with key business and accounting process owners
Substantive audit of manual journals including use of data analytic techniques to identify any significant unusual journals
Audit and challenge of judgemental areas with sufficient level of professional scepticism and involvement of senior team members

Materiality

Materiality

We design our audit procedures to obtain reasonable assurance that errors in the financial statements are not material individually or in aggregate. Errors are considered to be material if, individually or in aggregate, they could reasonably be expected to influence readers' overall understanding of the financial statements and non-financial performance information in making decisions or assessments about the stewardship and allocation of resources and the performance of the entity. Our materiality is set at $1.58m but we will report identified errors in excess of $79,000.

Materiality for the statement of service performance is determined based on the determined criteria and audit assessment rating in accordance with the OAG auditing standard AG-4 (revised) "The audit of service performance reports." Significant performance measures will be assessed based on a materiality of 2%. Issues identified in other measures will be assessed using a threshold of 5%.

Materiality is used to determine the nature and extent of our audit procedures. PBE IPSAS 1 Presentation of Financial Statements states that omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements.

Our planning materiality for the 30 June 2018 audit is based upon 2% of forecasted expenditure of $79.1m. Our materiality levels are set out in the table below:

Detail $m	2018 Audit Estimate	2017 Audit Actual
Forecasted expenditure	$79,100,000	$75,030,000
Planning materiality – 2%	$1,580,000	$1,500,000
Threshold for reporting audit and review differences	$79,000	$75,000

As a matter of course, all identified audit and review differences in excess of $79,000 will be brought to the attention of management for further consideration and action as appropriate. We will communicate to you any of these audit differences that are not adjusted by management, as well as significant corrected misstatements.

We will regularly review the level of materiality throughout the engagement and where a change is necessary we will advise the Committee accordingly.

Your EY team

Your EY team

Your audit team for 2018 provides continuity and fresh ideas. This helps to ensure that we build on previous experience and make the audit process as smooth as possible.

Your EY team

We understand that our team is the most important element of your relationship with us. We have effectively balanced the ongoing continuity of our core team with the input of innovation and fresh insights.

Key members of our team has been involved in the audit of the Council for a number of years. This stability provides the Council with continuity, historical knowledge of your business, and industry expertise. These combined factors enable us to focus on the significant issues facing your business. In addition, we have incorporated experts from our IT systems and Financial Accounting Advisory team to assist us in addressing the financial risks facing the Council.

Our executive team will continue to be David Borrie and Ahmed Sofe as audit engagement partner and senior manager.

We have also maintained strong continuity at the staff level, while also bringing on some new talent.

Core audit team

David Borrie
Audit Engagement Partner

Marcus Henry
Independent Partner

Ahmed Sofe
Senior Manager

Shabib Shahul
Senior Accountant

Specialists

Dinesh Manicckam
IT Risk Assurance Specialist

Lara Truman
Technical Accounting Specialist

Independence

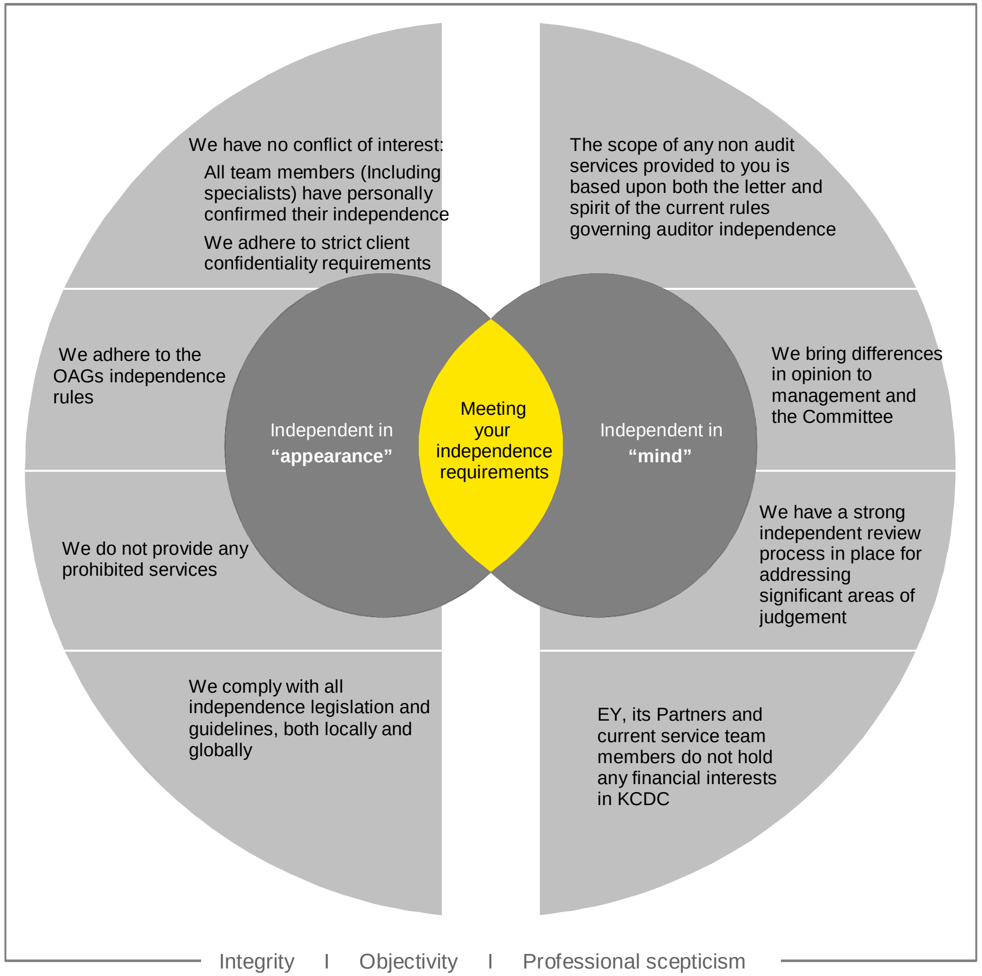
Independence

We are committed to being and being seen to be independent. There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Committee.

We understand the importance of independence to you. We have been rigorous in maintaining our independence and managing conflicts. We will remain independent, and be seen to be independent. We have always respected your expectation of Audit Independence, and have not sought to compromise you in any way by advocating positions that were not clearly permitted under normal expectations, or may have led to a perception or a conflict.

Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet both KCDC's and broader regulatory independence requirements.

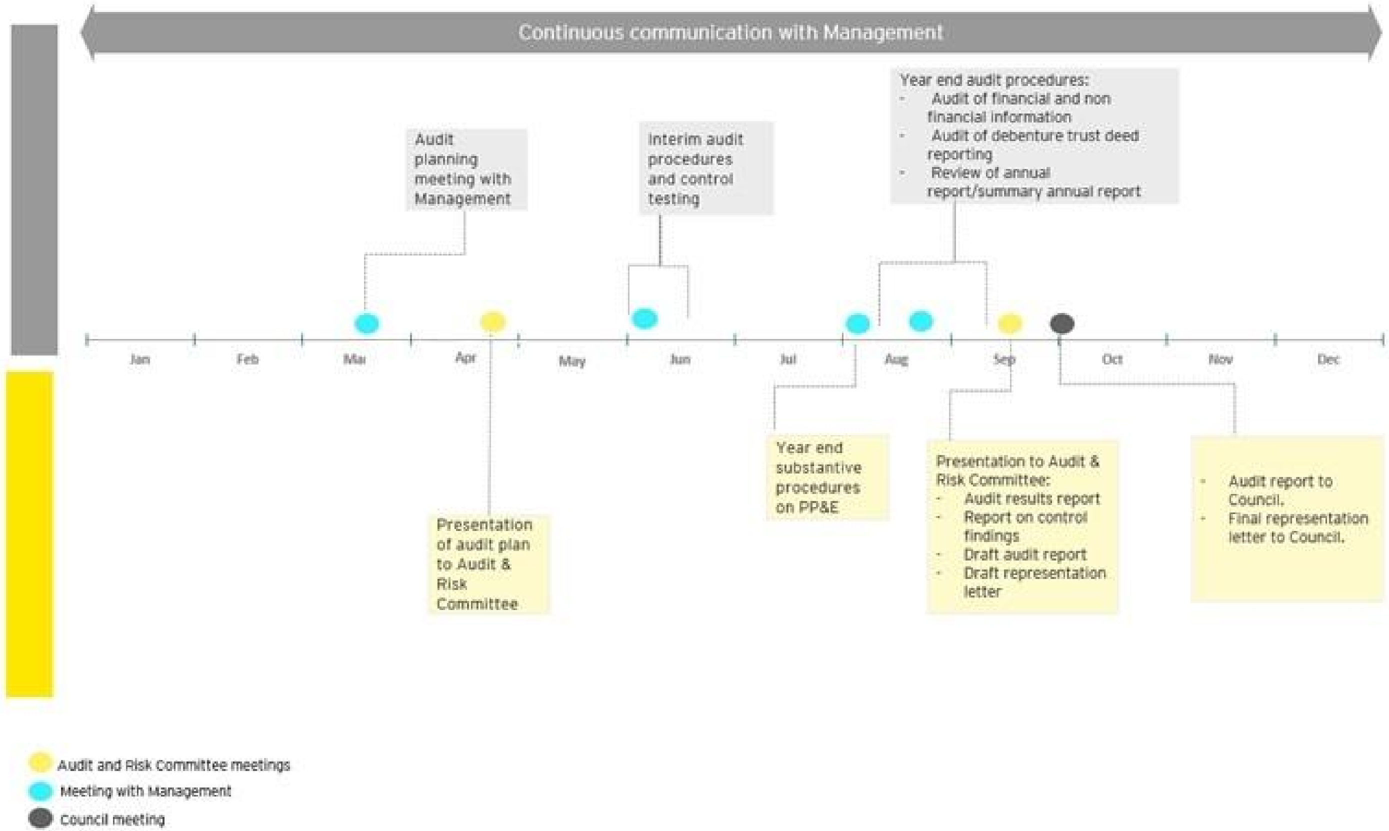
Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.



Engagement execution and reporting

Engagement execution and reporting

We recognise that regular, timely communication with management and the Committee is critical to maintaining an effective and transparent relationship. Our audit process operates throughout the year so that we can respond to issues as they arise and maintain close communication, with management and the Committee, as the audit cycle progresses.



2018-2038 Long Term Plan

2018-2038 Long Term Plan

In accordance with our engagement letter dated 4 October 2017 we have completed our audit of the Council's Consultation Document (CD) which is currently out with the community for consultation. Our opinion was issued on 15 March 2018. We expect to complete our audit procedures over the full Long Term Plan (LTP) in May and June. Our opinion on the CD focused on:

- Whether the document provided an effective basis for public participation in the Council's decisions about the proposed content of its 2018/38 long-term plan, because it:
  - fairly represents the matters proposed for inclusion in the long term plan, and
  - Identifies and explains the main issues and choices facing the Council and the District, and the consequence of those choices and
- The information and assumptions underlying the information in the CD are reasonable.

Our work was principally aimed at assessing the effectiveness of the Council's compliance with Section 93B (the purpose of the consultation document) and Section 93C (the content of the consultation document) of the Local Government Act 2002.

Documents we considered as part of our audit of the CD are as follows:

- Asset Management Plans;
- Key policies;
- Council's Infrastructure Strategy;
- Council's Financial Strategy;
- Financial models; and
- Other key supporting Plans and Policies.

Our audit of the LTP will focus on changes made to Council's plans for the next 20 years as a result of the consultation with the community. We will also review how the components of the LTP fit together and the consistency of the separate sections included in this document.

Appendices

Appendix A – Communication with those charged with governance

Matter	Required communication	Reference
Terms of engagement	• Confirmation by the Committee of acceptance of terms of engagement • Ernst & Young to provide a copy of the engagement letter	Engagement letter
Planning and audit approach	• Communication of the planned scope and timing of the audit including any limitations	This Report
Significant audit findings	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit Closing Report or sooner if appropriate
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • In writing, corrected misstatements that are significant	Audit Closing Report
Fraud	• Enquiries of the Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit Closing Report

Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:
	  • Non-disclosure by management;
	  • Inappropriate authorisation and approval of transactions;
	  • Disagreement over disclosures;
	  • Non-compliance with laws and regulations; and
	  • Difficulty in identifying the party that ultimately controls the entity.
		Audit Closing Report or sooner if appropriate

Appendix A – Communication with those charged with governance

Matter	Required communication	Reference
External communications	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit Closing Report or sooner if appropriate
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional • Enquiry of the Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements of which the Committee may be aware	Audit Closing Report

Going concern	• Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:
	  • Whether the events or conditions constitute a material uncertainty;
	  • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and
	  • The adequacy of related disclosures in the financial statements.
		Audit Closing Report / Management Letter

Control findings	• Significant deficiencies in internal controls identified during the audit	Audit Closing Report

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