

Chairperson and Committee Members
AUDIT AND RISK COMMITTEE

27 APRIL 2017

Meeting Status: **Public**

Purpose of Report: For Decision

**ERNST & YOUNG AUDIT PLAN FOR THE YEAR ENDED
30 JUNE 2017**

PURPOSE OF REPORT

- 1 This report provides the Audit and Risk Committee with a summary of the Ernst & Young Audit Plan 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.
 - *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 2017.
- 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 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

- 6 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

- 7 The materiality threshold has been set at \$1.5 million, being 2% of forecast expenditure. Any errors impacting the operating result by more than \$75,000 will be reported to the Committee.

Financial Considerations

- 8 The audit fee for the 2017 audit is \$178,960 (excluding GST) as detailed in Ernst & Young's proposal to conduct the audit of Council on behalf of the Auditor-General for the 2017, 2018 and 2019 financial years (Corp-17-169).

Legal Considerations

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

Consultation

- 10 There are no consultation issues arising from this report.

Policy Implications

- 11 There are no policy implications arising from this report.

Tāngata Whenua Considerations

- 12 There are no tāngata whenua considerations arising from this report.

Publicity Considerations

- 13 There are no publicity considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

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

RECOMMENDATIONS

- 15 That the Audit and Risk Committee receives and notes the Ernst & Young Audit Plan for the year ended 30 June 2017.
- 16 That the Audit and Risk Committee delegates authority to the Group Manager Corporate Services, to authorise Ernst & Young's' audit engagement letter for the 2017, 2018 and 2019 financial years.

Report prepared by: **Approved for submission:** **Approved for submission:**

Mark de Haast
Chief Financial Officer









Wayne Maxwell
Group Manager
Corporate Services

Sarah Stevenson
Group Manager
Strategy and Planning

Appendix 1: Ernst & Young Audit Plan for the year ended 30 June 2017

Kapiti Coast District Council

Audit Plan for the year ending 30 June 2017

| | | | | | |
|---|--|----|---|------------------------------------|----|
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Dear Members of the Audit & 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") for the year ending 30 June 2017. 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 2017 audit.

Our audit is designed to express an audit opinion on the 30 June 2017 full year financial statements and service performance information. 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 27 April 2017.

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 the business and adapted our audit approach accordingly.

Our key focus areas have been summarised below and explained in detail on pages 5 – 8. They remain broadly consistent with the prior year. 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) Claims and Subsidies;
- Debt facilities and derivatives;
- Completeness and effectiveness of the KCDC's Non-financial performance reporting;
- KCDC's legislative compliance;
- Core controls over operating expenditure, procurement and tendering;
- Employee Entitlements and other provisions; and
- Calculation of the landfill aftercare provision.

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 the prior year. We seek to test your controls in the key financial statement processes and therefore expect to take a controls based approach wherever possible. Details of our controls based approach is outlined in detail on page 10. 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 and 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 \$1.5m being 2% of forecasted expenditure as set out in KCDC's 2016/17 Annual Plan. We will continue

to report to the Audit & Risk Committee errors impacting surplus/deficit by more than \$75,000.

Tolerances will be set individually for each significant performance measure.

Your EY team

David Borrie will be KCDC's audit partner for the 2017 audit supported by Ahmed Sofe as audit manager. David has been involved with audits of local authorities for more than 10 years.

Marcus Henry will continue to be involved in the audit as 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.

Ahmed and a number of the staff on our core audit team will return to carry out the audit in 2017 as we understand the importance of maintaining a strong understanding of the organisation as well as introducing fresh ideas.

Details of our full team are outlined on page 15.

Independence

We remain in compliance with the ICAANZ 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 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 19 a summary of our communication and deliverables throughout the audit.

Audit fee

The proposed audit fee for the 2017 audit is \$178,960 as set out in our draft audit proposal letter dated 10 January 2017. This amount includes the OAG overhead and disbursements.



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 |
|----------------|--|---|--|---|
| Areas of Focus | | Accounting for infrastructure assets | <ul style="list-style-type: none"> Infrastructure assets dominate KCDC's balance sheet and the total carrying value of the infrastructure assets at 30 June 2016 was \$1,305m. 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 2017. <ul style="list-style-type: none"> Roading and Footpaths; and Roading – Land under roads; The valuation of infrastructure assets is judgemental 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, although we acknowledge that this risk is less significant for land, which is not depreciated). Valuation adjustments arising from significant movements in market values for land or replacement costs may be material. There is a risk of: <ul style="list-style-type: none"> the useful life assumptions used in the valuation reports not being reflective of up to date information maintained in the Council's Asset Management systems. Inappropriate depreciation rates. The integrity of the classification of maintenance and/or capital expenditure is critical given the nature and useful life of work carried out. This is particularly relevant to expenditure incurred on roading and pipeline assets. | <ul style="list-style-type: none"> 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 the Council. We will also review key inputs to the valuation and assess 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. 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. We will review classification of transactions relating to capital, renewal and maintenance work. 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 Council's latest valuation and other supporting information. Assess capital projects for their impact upon capital commitments and other related disclosures. |
| | | Integrity of rates setting, rates invoicing and collection considerations | <ul style="list-style-type: none"> Rates income levied represents the Council's primary revenue source. There is specific legislation in place which must be adhered to for the rates strike 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 | <ul style="list-style-type: none"> We will review the Council's procedures for ensuring the rates set are in 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 revisit the Council's approach to address the rating legislation issue as detailed in our audit closing report to the committee for 2016 financial year. In particular, the inclusion of fixed and volumetric water rates within the rates assessment notice sent to ratepayers. We will test the accuracy of the use of underlying valuation information (as prepared by |

| Areas of audit focus | Our perspective | Work to be performed |
|---|--|---|
| | <p>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 Council's revenue.</p> <ul style="list-style-type: none"> • The accuracy of a rates set is dependent on the integrity of the rates database and the reliability of the rates billing system should ensure rates are billed appropriately. • Certain rate paying groups may represent significant collection risk. | <p>Quotable Value) within the rating database and its applications to the rates that were set.</p> <ul style="list-style-type: none"> • We will review the nature and form of the rates resolution and the invoicing of rates in terms of risks that may impact the financial statements. • We will test the integrity of the rates debtor management system. • We will review any provision for doubtful rates debtors to consider whether it is appropriate in the circumstances. |
| Recognition of New Zealand Transport Authority (NZTA) Claims and Subsidies | <ul style="list-style-type: none"> • 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. • 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. • 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. | <ul style="list-style-type: none"> • We will review the claim process and controls system (approvals, checking and reconciliations) utilised by the Council to support claims made to NZTA and check if the roading work is competitively tendered. • 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 2017 related to the 2017 financial year. |
| Debt facilities and derivatives | <ul style="list-style-type: none"> • KCDC accesses debt through a combination of Local Government Funding Authority (LGFA) funding and bank facilities. With regards to this, KCDC have reporting requirements and debt covenants. The Debenture trust deed includes clauses which require the auditor of the Council 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 the fair value of the guarantee liability. • KCDC maintain interest rate swaps to manage the Council's exposure to interest rate fluctuations. These swaps are carried at fair value. | <ul style="list-style-type: none"> • We will obtain an understanding of any new debt facility agreements or drawdowns entered into in the year. • We will obtain third party confirmation of outstanding debt and swap positions at year end. • Review process for managing draw-downs. • Consider long term or current financial statement classification. • 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 position is in line with the Council's Long Term Plan. • Check KCDC's compliance with the 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 | <ul style="list-style-type: none"> • The Council is required to report its performance against levels of service and performance measures included in the Long Term Plan. These measures are key to the Council providing a "performance story" to the community. • Our audit opinion on the service performance report covers compliance with generally accepted accounting practice, and whether or not the service performance report fairly reflects the Council's actual service performance for the period. • 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. | <ul style="list-style-type: none"> • 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. |
| KCDC's legislative compliance | <ul style="list-style-type: none"> • The Council operates in a highly legislated area of the economy. It is important from an audit perspective that we are made aware | <ul style="list-style-type: none"> • We will consider the extent to which the Council maintains systems and procedures to monitor and manage its own legislative compliance; |

| | Areas of audit focus | Our perspective | Work to be performed |
|--|---|---|---|
| | | <p>of any instances of non-compliance.</p> <ul style="list-style-type: none"> Key areas of legislation from an audit perspective include: <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. | <ul style="list-style-type: none"> 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 entities operations. |
| | Core controls over operating expenditure, procurement and tendering | <ul style="list-style-type: none"> 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. | <ul style="list-style-type: none"> We will review the application of procurement policies. We will review areas of potential sensitivity for appropriateness. Obtain assurance that appropriate processes and controls are in place. We will review the use of credit cards and obtain assurance that expenditure has been incurred for a reasonable purpose. 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 their appropriate approvals. |
| | Employee Entitlements and other provisions | <ul style="list-style-type: none"> 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. | <ul style="list-style-type: none"> 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. 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. |
| | Calculation of the Landfill After Care Provision | <ul style="list-style-type: none"> Council currently operates the Otaihangā landfill and also manages 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. | <ul style="list-style-type: none"> 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 discounting of values associated with the landfill. We will assess whether disclosures in the financial statements are appropriate. We will review the disclosure of contingent liabilities within the financial statements. |

A person is silhouetted while sitting on a wooden pier, looking out over a body of water. The sun is low on the horizon, creating a bright, warm glow that reflects on the water's surface. In the background, a range of mountains is visible under the hazy sky. The pier has several wooden posts and a railing.

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 and service performance information. The specific terms and scope of the external audit engagement are set out in our engagement letter.

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 and statement of service performance of the Council for the year ending 30 June 2017 are free of material misstatement. In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This 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 raises 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 2016 control findings during our audit to check if management's responses have been implemented during the year as agreed.

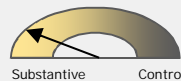
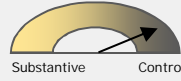

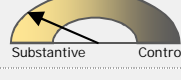
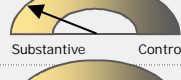
We have set out to the right a table which summarises the level of controls reliance we expect to achieve in the key financial statements processes.

IT General Controls

During 2014/15 financial year we have performed a review of the Information Technology General Controls (ITGCs) significant to financial reporting and have provided our feedback

to management. We understand Management have addressed most of our finding and we intend to revisit the findings of this assessment during the year.

Approach to key financial statement processes

| 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 programme 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 our 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 skepticism 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 \$1.5m but we will report identified errors in excess of \$75,000. 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."

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 2017 full year audit is based upon 2% of forecasted expenditure of \$75m. Our materiality levels are set out in the table below:

| Detail \$m | 2017 Audit Estimate | 2016 Audit Actual |
|--|---------------------|-------------------|
| Expenditure | \$75,030,000 | \$73,053,000 |
| Planning materiality -2 % | \$1,500,000 | \$1,400,000 |
| Threshold for reporting audit and review differences | \$75,000 | \$73,000 |

As a matter of course, all identified audit and review differences in excess of \$75,000 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 2017 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.

Audit Engagement Partner rotation

The periodic rotation of the key decision makers on the audit assists with maintaining our independence and bringing a fresh view. While Marcus Henry has changed the role he fills he has not rotated off the team and remains a key member of the EY audit team.

David Borrie will be your lead audit partner and has overall responsibility for the audit services provided to Council. David has more than 10 years audit experience in the local government sector and the broader public sector. David is looking forward to working with Committee members and is happy to discuss matters as they arise. David can be contacted on +64 21 923 431 or at david.borrie@nz.ey.com.

Core audit team

David Borrie
Audit Engagement Partner

Marcus Henry
Independent Partner

Ahmed Sofe
Manager

Nicole Shearer
Senior Auditor

Specialists

Linden Vazey
Senior Manager - ITAdvisory

Charis Halliday
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 the KCDC's and broader regulatory independence requirements.

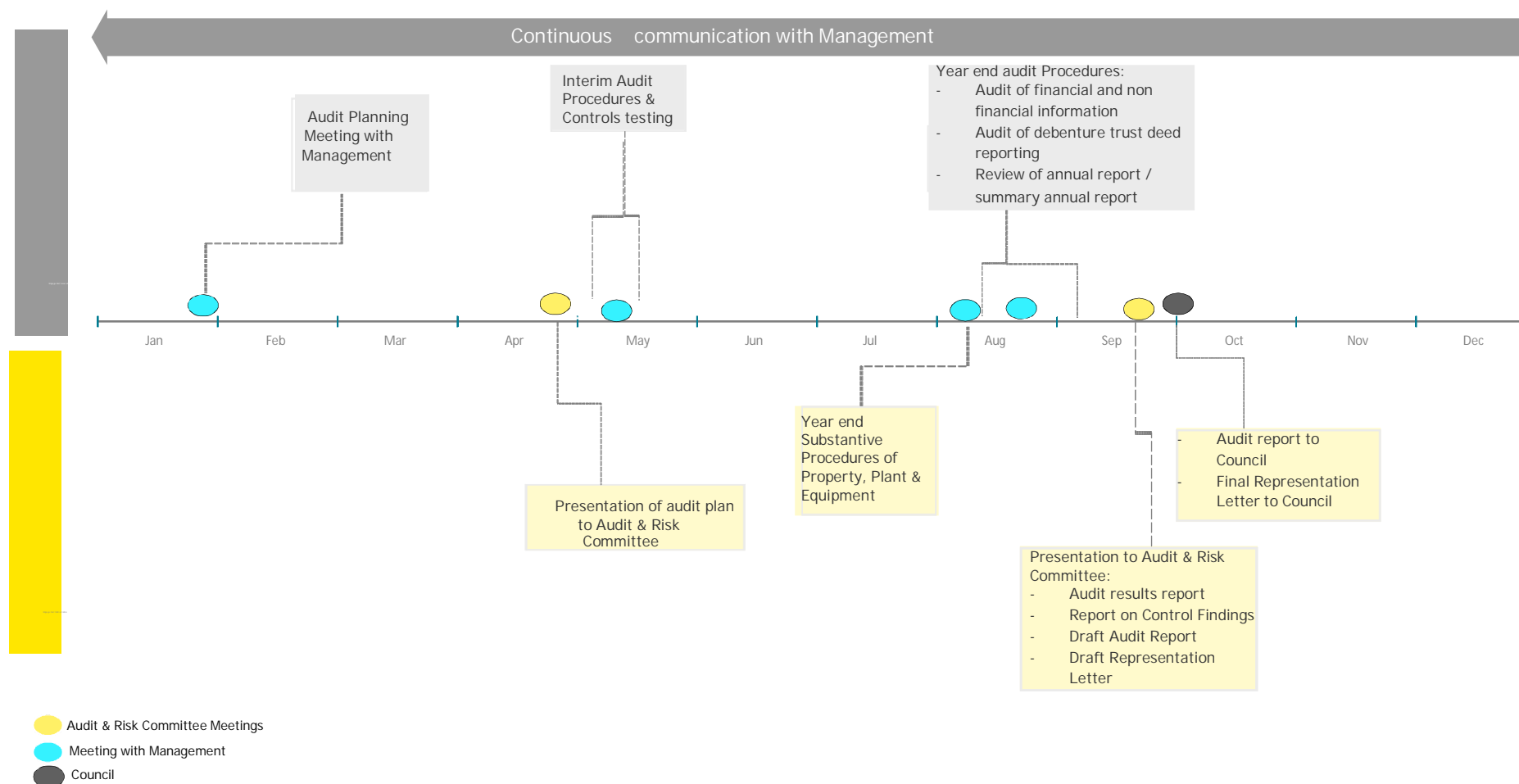
Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.



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.



Appendices

Appendix A – Communication with those charged with governance

| Matter | Required Communication | Reference |
|-----------------------------|---|---|
| Terms of engagement | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> Communication of the planned scope and timing of the audit including any limitations | This Report |
| Significant audit findings | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 or sooner if appropriate |
| Related parties | <ul style="list-style-type: none"> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • 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 |
| Control findings | <ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit | Audit Closing Report |

Appendix B – Draft Engagement letter

5 April 2017

The Councillors
Kapiti Coast District Council
Private Bag 60601
Paraparaumu 5254

Dear Councillors

AUDIT ENGAGEMENT LETTER

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all “public entities”, including Kapiti Coast District Council, under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, David Borrie, using the staff and resources of Ernst & Young, under section 32 and 33 of the Act, to carry out the annual audits of the Kapiti Coast District Council’s financial statements and performance information. We will be carrying out these annual audits on the Auditor-General’s behalf, for the years ending 30 June 2017, 2018 and 2019.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Council and me, as the Appointed Auditor, for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the Council’s financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit. Typically those matters will relate to issues of financial management and accountability.

We will carry out the 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 (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether the Kapiti Coast District Council’s financial statements and performance information are

free from material misstatement. The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

Your responsibilities

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- providing us with:
 - access to all information relevant to preparing the financial statements and performance information such as records, documentation, and other information;
 - all other information, in addition to the financial statements and performance information, to be included in the annual report;
 - additional information that we may request from the Kapiti Coast District Council for the purpose of the audit;
 - unrestricted access to Council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

The Council’s responsibilities extend to all resources, activities, and entities under its control. We expect that the Council will ensure:

- the resources, activities, and entities under its control have been operating effectively and efficiently;
- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;

- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the Council and/or the individuals within the Kapiti Coast District Council with delegated authority, to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred - regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The Council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Annex 1. Annex 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the Council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

The Council should have documented policies and procedures to support its responsibilities. It should also regularly monitor performance against its objectives.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether the financial statements of Kapiti Coast District Council:

- present fairly, in all material respects:
 - its financial position as at 30 June 2017, 2018 and 2019; and
 - its financial performance and cash flows for the years then ended;
- comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Standards.

We are also responsible for forming an independent opinion on whether the performance information of Kapiti Coast District Council:

- presents fairly, in all material respects, the performance for the years ended 30 June 2017, 2018 and 2019, including:
 - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved; and
 - the reasons for any significant variation between the levels of service achieved and the intended levels of service.
- complies with generally accepted accounting practice in New Zealand.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, 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 controls. However, we will communicate to you in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the Council have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the Council obtained and applied the resources in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the Council have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of a lack of financial prudence.

Our independence

It is essential that the audit team and Ernst & Young remain both economically and attitudinally independent of Kapiti Coast District Council (including being independent of management personnel and members of the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with the objectivity of the audit team and the Ernst & Young.

To protect our independence, specific limitations are placed on us in accepting engagements with the Council other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any other engagements must be the subject of a separate written arrangement between the Council and myself or Ernst & Young.

Reporting

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee of the audit report. In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This 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.

We will also issue a management letter that will be sent to the Council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Council. Typically those matters will relate to issues of financial management and accountability. We may also provide other management letters to the Kapiti Coast District Council from time to time. We will inform the Council of any other management letters we have issued.

Please note that the Auditor-General may publicly report matters that are identified in the annual audit, in keeping with section 21 of the Public Audit Act 2001.

Next steps

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the enclosed copy of the letter in the space provided and returning it to me. The terms will remain effective until a new Audit Engagement Letter is issued.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible. If after contacting me you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours faithfully

.....
David Borrie
Partner, Ernst & Young
On behalf of the Auditor-General

I acknowledge the terms of this engagement and that I have the required authority on behalf of the Council.

Signature:

Name:

Title: Date:

Annex 1 – Respective specific responsibilities of the Council and the Appointed Auditor

| Responsibilities for the financial statements and performance information | |
|---|--|
| <i>Responsibilities of the Council</i> | <i>Responsibilities of the Appointed Auditor</i> |
| <p>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</p> <p>You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p> | <p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> - present fairly, in all material respects: <ul style="list-style-type: none"> - the financial position as at 30 June 2017, 2018 and 2019; and - the financial performance and cash flows for the years then ended; - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Standards. <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> - presents fairly, in all material respects, the performance for the years ended 30 June 2017, 2018 and 2019, including: <ul style="list-style-type: none"> - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved; and - the reasons for any significant variation between the levels of service achieved and the intended levels of service. - complies with generally accepted accounting practice in New Zealand <p>We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements and performance information.</p> <p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence the audit report addressee's overall understanding of the financial statements and performance information.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for you to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> - the appropriateness of accounting policies used and whether they have been consistently applied; - the reasonableness of the significant accounting estimates and judgements made by those charged with governance; - the appropriateness of the content and measures in any performance information; - the adequacy of the disclosures in the financial statements and performance information; and - the overall presentation of the financial statements and performance information. <p>We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> - the adoption of the going concern basis of accounting is appropriate; |

| | |
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| | <ul style="list-style-type: none"> - all material transactions have been recorded and are reflected in the financial statements and performance information; - all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and - uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p> |
|--|--|

| Responsibilities for the accounting records | |
|--|---|
| <i>Responsibilities of the Council</i> | <i>Responsibilities of the Appointed Auditor</i> |
| <p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> - correctly record and explain the transactions of the public entity; - enable you to monitor the resources, activities, and entities under your control; - enable the public entity's financial position to be determined with reasonable accuracy at any time; - enable you to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and - are in keeping with the requirements of the Commissioner of Inland Revenue. | <p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p> |

| Responsibilities for accounting and internal control systems | |
|---|---|
| <i>Responsibilities of the Council</i> | <i>Responsibilities of the Appointed Auditor</i> |
| <p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the public entity), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and - where applicable - performance information reporting.</p> | <p>The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information.</p> <p>We will report to you separately, on any significant weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.</p> |

| Responsibilities for preventing and detecting fraud and error | |
|---|---|
| <i>Responsibilities of the Council</i> | <i>Responsibilities of the Appointed Auditor</i> |
| <p>The responsibility for the prevention and detection of fraud and error rests with you, through the implementation and continued operation of adequate internal control systems (appropriate to the size of the public entity) supported by written policies and procedures.</p> <p>We expect you to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect you to consider reporting all instances of actual, suspected, or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect you to immediately inform us of any suspected fraud where you, and/or any individuals within the Kapiti Coast District Council with delegated authority have a reasonable basis that suspected fraud has occurred - regardless of the amount involved.</p> | <p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> - obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and - report to you any significant weaknesses in internal control that come to our notice. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected, or alleged fraud.</p> <p>As part of the audit, you will be asked for written confirmation that you have disclosed all known instances of actual, suspected, or alleged fraud to us.</p> <p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from you, or management, or by any other means, we will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report the fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so, if it is appropriate for the purposes of protecting the interests of the public.</p> |

| Responsibilities for compliance with laws and regulations | |
|---|---|
| <i>Responsibilities of the Council</i> | <i>Responsibilities of the Appointed Auditor</i> |
| <p>You are responsible for ensuring that the public entity has systems, policies, and procedures (appropriate to the size of the public entity) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of the public entity are complied with. Such systems, policies, and procedures should be documented.</p> | <p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> - the relevance of the law or regulation to the audit; - our assessment of the risk of non-compliance; - the impact of non-compliance for the addressee of the audit report <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws and regulations.</p> |

| Responsibilities to establish and maintain appropriate standards of conduct and personal integrity | |
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| <i>Responsibilities of the Council</i> | <i>Responsibilities of the Appointed Auditor</i> |
| <p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a "Code of Conduct" and, where applicable, support the "Code of Conduct" with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted "Codes of Conduct" that apply to the public sector.</p> | <p>We will have regard to whether you maintain high standards of conduct and personal integrity – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of the public entity may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to you and to the Auditor-General all significant departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p> <p>The Auditor-General, on receiving a report from us, may, at his discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p> |

| Responsibilities for conflicts of interest and related parties | |
|--|---|
| <i>Responsibilities of the Council</i> | <i>Responsibilities of the Appointed Auditor</i> |
| <p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p> | <p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions. Depending on the circumstances, we may enquire whether you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p> |

| Responsibilities for publishing the audited financial statements on a website | |
|---|---|
| <i>Responsibilities of the Council</i> | <i>Responsibilities of the Appointed Auditor</i> |
| <p>You are responsible for the electronic presentation of the financial statements and performance information on the public entity's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If the audit report is reproduced in any medium, you should present the complete financial statements, including notes, accounting policies, and any other accountability statements.</p> | <p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on your website is beyond the scope of the annual audit.</p> |

Annex 2 – Health and safety of audit staff

The Auditor-General and Audit Service Providers take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015 we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a work environment for our audit staff that is without risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

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