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

28 FEBRUARY 2019

Meeting Status: **Public**

Purpose of Report: For Information

# ERNST AND YOUNG AUDIT PLAN FOR THE YEAR ENDED 30 JUNE 2019

## 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 2019.

## 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 2019).

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.

## CONSIDERATIONS

### Risk assessment and areas of audit focus

5 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 Agency (NZTA) claims and subsidies;
- Completeness and effectiveness of non-financial performance reporting;
- Controls over operating expenditure, procurement and tendering;
- Debt facilities and derivatives;
- Calculation of the landfill aftercare provision;
- Sector specific matters; and
- Focused on your future (impact of new accounting standards)

**Materiality**

6 The materiality threshold has been set at $1.6 million, being 2% of forecast expenditure. Any errors impacting the operating result by more than $81,000 will be reported to the Committee.

## Financial Considerations

7 The total audit fees payable to Ernst & Young for the year ended 30 June 2019 are estimated to be $184,050 plus GST and reasonable disbursements. This fee includes the audit of the 2017/18 Annual Report ($180,900) and the Council's compliance with its Debenture Trust Deed ($3,150) for the year ended 30 June 2019. This fee estimate has been reflected in the 2018-38 Long Term Plan.

## Legal Considerations

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

## Consultation

9 There are no consultation issues arising from this report.

## Policy Implications

10 There are no policy implications arising from this report.

## Tāngata Whenua Considerations

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

## Publicity Considerations

12 There are no publicity considerations arising from this report.

## SIGNIFICANCE AND ENGAGEMENT

## Degree of significance

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

# RECOMMENDATIONS

14 That the Audit and Risk Committee receives and notes the Ernst & Young Audit Plan for the year ended 30 June 2019.

| Report prepared by: | Approved for submission: | Approved for submission: |
|---|---|---|
| **Anelise Horn**<br>**Manager, Financial Accounting** | **Mark de Haast**<br>**Group Manager Corporate Services** | **James Jefferson**<br>**Group Manager Place and Space** |

Appendix 1: Ernst & Young Audit Plan for the year ended 30 June 2019

Appendix 1 Corp-19-725

# Kapiti Coast District Council

Audit Plan for the year ending 30 June 2019

EY

Building a better working world

# Dear Audit and Risk Committee Members

We are pleased to present our Audit Plan (“Plan”) for Kapiti Coast District Council (“KCDC” or “The Council”) for the year ending 30 June 2019. Our meeting with you on 28 February 2019 is a forum to discuss our Plan, the scope of our work, confirm your current expectations and make certain that our efforts are aligned with your expectations.

Our audit is designed to express an audit opinion on the 30 June 2019 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 acknowledging, and with consideration of, the Council’s current and emerging risks and the resultant financial statement impacts. It is designed to be responsive to the unique needs of KCDC, to maximise audit effectiveness and to deliver the high-quality audit you expect.

Should you have any questions or comments, please do not hesitate to contact me on 021 923 431 or david.borrie@nz.ey.com. We look forward to discussing our Plan with you at the Audit and Risk Committee meeting on 28 February 2019.

Yours faithfully,

David Borrie
Partner

Ahmed Sofe
Senior Manager

# Executive Summary

## AREAS OF AUDIT FOCUS

9

Our overall assessment of KCDC's financial and non-financial reporting risks remain reasonably consistent with prior years.

The Areas of Audit Focus and the level of complexity or management judgement to be applied are summarised below and explained in detail on pages 4 to 12:

| | |
|---|---|
| Accounting for infrastructure assets | HIGH |
| Integrity of rates setting, rates invoicing and collection considerations | HIGH |
| Recognition of New Zealand Transport Authority (NZTA) subsidies | MEDIUM |
| Completeness and effectiveness of the Council's non-financial performance reporting | MEDIUM |
| Controls over expenditure, procurement and tendering | MEDIUM |
| Debt facilities and derivatives | LOW |
| Calculation of the landfill after care provision | LOW |
| Sector specific matters | LOW |
| Focused on your future | LOW |

## OUR AUDIT APPROACH

As in prior years we seek to test controls over the key financial statement processes and therefore expect to take a control based approach for the following processes:

- Expenditure and accounts payable;
- Rates setting and collection; and
- Payroll.

There continues to be a substantive approach taken to the following areas of the audit:

- Valuation of infrastructure assets
- Financial statement close process;
- Other Income (fees and charges and NZTA subsidies);
- Statement of Service Performance reporting;
- Debt and Derivatives; and
- Accruals

## PLANNING MATERIALITY

$1.6m

Our planning materiality has been set at $1.6m, calculated at 2% of forecast expenditure as set out in the 2018/38 Long Term Plan. The basis for calculating planning materiality is consistent with previous years. We will report all audit differences over $81k.

Tolerance will be set individually for each significant performance measure selected to test.

## INDEPENDENCE

We will confirm our independence throughout the audit. We remain in compliance with the NZICA Code of Ethics and the Auditor General's Statement on Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners.

## AUDIT FEE

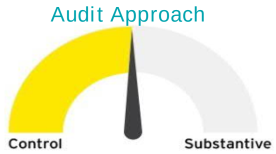
Audit fees for the 2019 financial year were agreed in the audit proposal letter dated 10 January 2017 and are as follows:

| | $'000s |
|---|---|
| Audit fees and disbursements | 168.4 |
| OAG overhead | 12.5 |
| Total audit fees | 180.9 |

# Areas of Audit Focus

Set out below are the areas of significant focus and a description of our planned approach. We have outlined the expected level of complexity or management judgement to be applied as either LOW, MEDIUM or HIGH.

## Accounting for infrastructure assets




Key Judgements: Key assumptions used in valuations, useful lives of assets and classification of capital and maintenance costs

HIGH

### Background

- Infrastructure assets dominate KCDC's balance sheet with carrying values at 30 June 2018 of approximately:

| Assets | $m |
|---|---:|
| Bridges, roads and footpaths | 315 |
| Storm water | 68 |
| Waste water | 139 |
| Drinking water | 119 |
| Land under roads | 796 |

- Infrastructure assets are held at fair value less accumulated depreciation and are re-valued on a systematic basis. Revaluations are scheduled as follows:

| Assets | Scheduled Revaluation Date |
|---|---:|
| Bridges, roads and footpaths | 2019 |
| Land under roads | 2020 |
| Three waters | 2020 |

### Planned Audit Approach

- For road assets that will be revalued this year we will review the valuations for appropriateness and obtain a reliance letter from the independent valuer engaged by KCDC. In particular, we will review key inputs to the valuation and consider 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 understand that during the current year additional vested road assets will be transferred to Council. These primarily relate to link roads in relation to the Wellington Northern Corridor expressway. We will check such roads have been recorded in the data that forms the basis for the valuation.
- We will obtain assurance that all assets within the applicable asset class were included in the valuation.
- 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 the carrying value of such assets is a reasonable proxy for fair value.
- 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.

- The valuation of infrastructure assets is 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 or replacement costs may be material.
- There is a risk of the useful life assumptions used in the valuation reports not being reflective of actual asset condition.
- The integrity of the classification of maintenance and/or capital expenditure is important both from the perspective of correct classification in the financial statements and in terms of improving asset condition and extending the expected useful life.

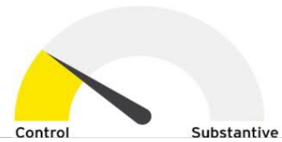
- For completed WIP projects, we will trace the transfer through to the fixed assets register and check that these projects are subject to depreciation.
- We will review significant asset impairments and management's assessment for indicators for impairment and consider whether any other indicators may 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.
- Assess capital projects for their impact upon capital commitments and other related disclosures.

# Integrity of rates setting, rates invoicing and collection considerations

Key Judgements: Compliance with the Local Government (Rating) Act and provisioning for outstanding rates debtors
Relevant accounting standards: PBE IPSAS 23 Revenue from Non-Exchange Transactions

HIGH

Audit Approach




## Background

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

## Planned Audit Approach

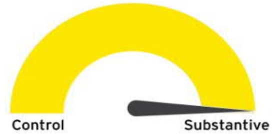
- We will review KCDC's procedures for ensuring the rates set is are compliance with the Local Government Rating Act and test that the rates set are being applied appropriately to the rating database and invoiced accordingly.
- We will test the accuracy of the use of underlying valuation information (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 understand that Council has successfully used the assistance of Debt Management Central (DMC) to reduce the age profile of rates debtors. We will consider whether this has been appropriately reflected in the provision for doubtful debts recognised at year end.
- 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

Key Judgements: Classification of roading costs incurred
Relevant accounting standards: PBE IPSAS 23 Revenue from Non-Exchange Transactions

MEDIUM

Audit Approach




## Background

- Transport projects and maintenance undertaken by KCDC are eligible to receive funding from NZTA. The relevant funding rates were updated last year. 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.
- During the year KCDC is likely to take ownership of several connecting roads as vested assets and it is expected the maintenance of these assets will be eligible for NZTA funding when it is required in due course.

## Planned Audit Approach

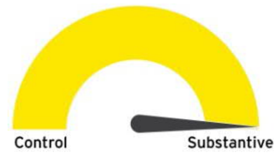
- We will review the claim process and controls system (approvals, checking and reconciliations) utilised by KCDC to support claims made to NZTA and obtain assurance that roading work is competitively tendered.
- We will check claims for NZTA funding received during the financial year to the cash received in the bank.
- 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 2019 related to the 2019 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.

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

Key Judgements: Interpretation of reporting metrics and results included / excluded

MEDIUM

Audit Approach




### Background

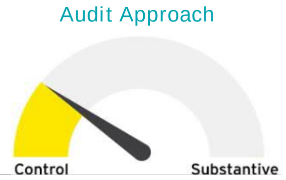
- The Council is required to report its performance against performance measures included in the Long-Term Plan (LTP). These measures are key to the Council providing a ‘performance story’ to the community.
- Our audit opinion on the service performance report covers compliance with generally accepted accounting practice, and whether or not the service performance report fairly reflects the Council’s actual service performance for the period.
- The performance framework set as part of the 2018/38 LTP is applicable to the current financial year.
- 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 2018/19 annual report. However, we will consider the entire Annual Report in providing general feedback to management.
  - Water
  - Access and Transport
  - Coastal Management
  - Wastewater
  - Stormwater
  - Solid waste
  - Parks and Open spaces

### Planned Audit Approach

- 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 if 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.

# Controls over expenditure, procurement and tendering

Key Judgements: Appropriateness / reasonableness of costs incurred




MEDIUM

## Background

- Appropriateness of the Councillor and management expenditure is an area of interest to ratepayers.
- The Council's capital works procurement programme involves significant cash flows.
- Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit.

## Planned Audit Approach

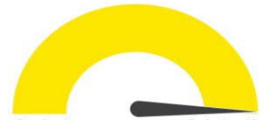
- We will review the incurrence and approval of operational expenditure.
- We will review the use of credit cards and whether expenditure has been incurred for a reasonable purpose.
- We will review the application of procurement policies. This will be done in the context of the recent review and update of Council's approach to procurement.
- We will review areas of potential sensitivity for appropriateness.
- Obtain assurance that appropriate processes and controls over expenditure are in place.
- For some 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.

# Debt facilities and derivatives

Key Judgements: Valuation of derivatives
Relevant accounting standards: PBE IPSAS 28 Financial Instruments: Presentation, PBE IPSAS 29 Financial Instruments: Recognition and Measurement, PBE IPSAS 30 Financial Instruments: Disclosures.

LOW

Audit Approach




## Background

- Borrowing represents one of the main sources of funding for KCDC and debt levels change with the timing of planned capital projects and repayment timelines. The total value of the debt as at 30 June 2018 was $205 million.
- The increased debt level in 2018 was a reflection of KCDC's debt pre-funding programme in line with the Council's Treasury Management Policy.
- KCDC accesses debt through the Local Government Funding Authority (LGFA). KCDC has reporting requirements and debt covenant compliance obligations. The Council is responsible for preparing Reporting Certificates to the Trustee in accordance with the requirements of the Trust Deed and we are required to report to the Trustee with respect to the accuracy of the reporting certificates.
- KCDC is also a guarantor of the LGFA total debt, and financial reporting standards require the Council to recognise the fair value of the guarantee liability if it is considered to be material.
- KCDC maintains interest rate swaps to manage the Council's exposure to interest rate fluctuations. The mark to market value of swaps amounted to a liability of $13.2m at 30 June 2018.

## Planned Audit Approach

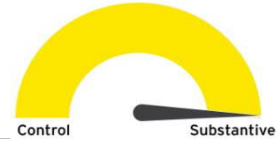
- We will obtain an understanding of debt facility agreements maintained in the year and review the relevant debt facility agreements including the process for managing drawdowns.
- We will consider the term or current classification of the debt.
- We will obtain LGFA confirmation of the outstanding debt position at year end.
- We will confirm derivative positions in place at year end and independently value a sample of derivative contracts.
- We will review disclosures associated with the debt and swap positions held to check that they are in accordance with the reporting standards.
- On a test basis, we will perform procedures to check compliance with Council's treasury management policy.
- We will also complete procedures required of us by the debenture trust deed.

## Calculation of the landfill after care provision

Key Judgements: Estimated cash outflow and discount rate applied
Relevant Accounting Standards: PBE IPSAS 19 Provisions, Contingent liabilities and Contingent Assets

LOW

Audit Approach




### Background

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

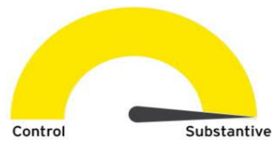
### Planned Audit Approach

- 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.

## Sector specific matters

LOW

Audit Approach




### Background

- We acknowledge that there are currently a number of ongoing reviews which may have implications for both KCDC and the broader local government sector. There are also some opportunities available as a result of central government initiatives. Current opportunities and reviews include:
  - Possibility of receiving funds from the Provincial Growth Fund
  - Productivity Commissioner's inquiry re Local Government funding and financing arrangements
  - Department of Internal Affairs' three waters review.

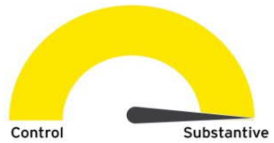
### Planned Audit Approach

- While none of this activity in the sector is likely to have a material impact on the 2018/19 financial statements we will continue to engage with management on these key matters over the medium term as more definitive findings and intended actions are confirmed.

# Focused on your future

## Impact of new accounting standards

Audit Approach




LOW

### Background

The following Standards and Interpretations have been issued and become effective for Public Sector and Not-for-profit PBEs over the next couple of years:

| | |
|---|---|
| PBE IFRS 9 Financial Instruments | Mandatory adoption from 1 July 2021 |
| PBE IPSAS 21 Impairment of Non-Cash Generating Assets & PBE IPSAS 26 Impairment of Cash-Generating Assets | Mandatory adoption from 1 July 2019 |
| PBE FRS 48 Service Performance Reporting | Mandatory adoption from 1 July 2021 |

Financial Instruments

- PBE IFRS 9 introduces into PBE Standards the reforms introduced by NZ IFRS 9 in the for-profit sector. This standard replaces most of the requirements of PBE IPSAS 29.
- This new standard introduces a forward-looking impairment model for financial assets, based on expected credit loss, which may cause certain assets to be impaired earlier than they would be under the current ‘incurred loss’ model.

Impairment

- Amends the scope of PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash-Generating Assets to include revalued assets.
- Revalued assets are subject to the same impairment assessment requirements as assets that are measured using the cost model.
- Where an impairment loss is recognised for an asset (or group of assets) that is revalued, an entity is not necessarily required to revalue the entire class of assets to which that impaired asset (or group of assets) belongs.
- For revalued assets, impairment losses and reversals thereof are accounted for in the same way as revaluation decreases and increases.

Service Performance Reporting

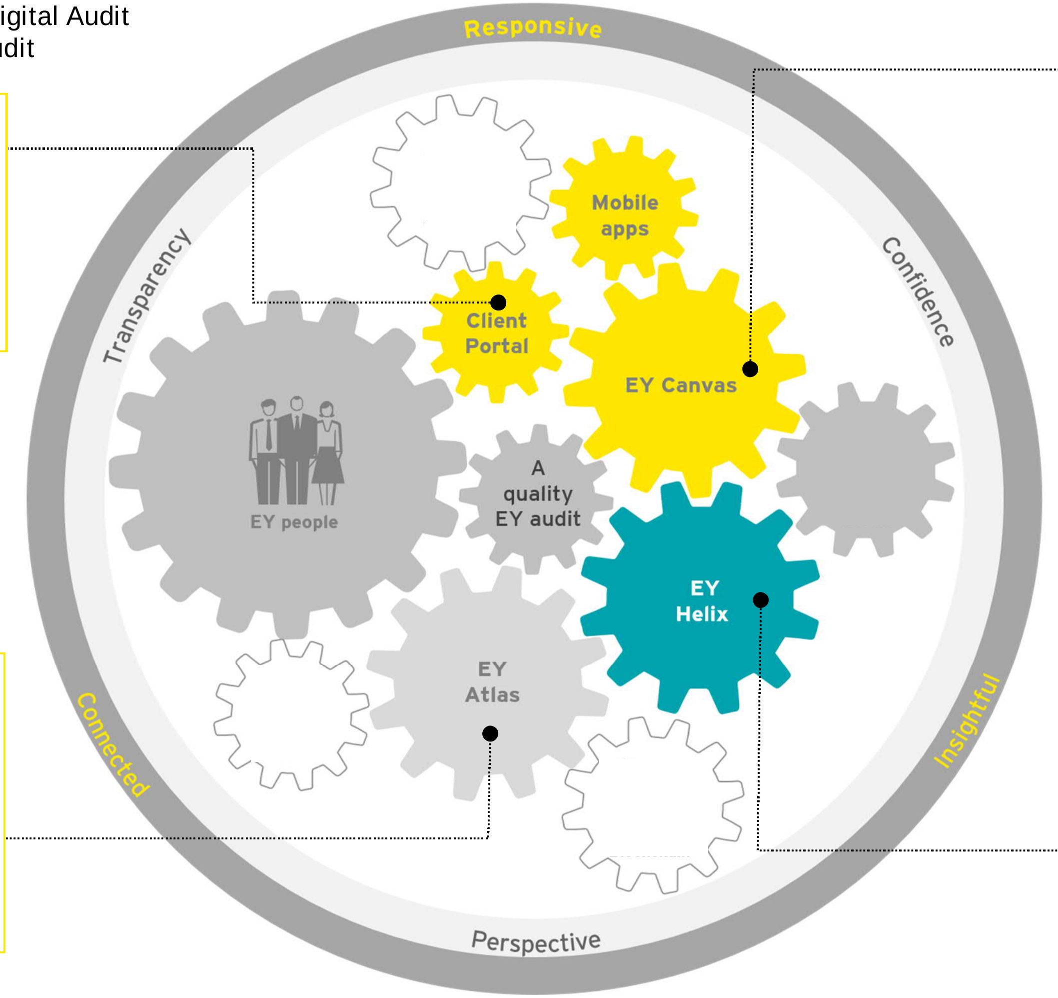
- At the beginning of November 2017, the NZASB approved the new financial reporting standard which will apply to tier 1 and tier 2 Public Benefit Entities.
- The new standard formalises the service reporting elements that are currently being reported by PBEs, however, it also requires disclosing judgements that have the most significant effect on the selection, measurement, aggregation, and presentation of service performance information.
- Whilst there is no format and layout of the SSP specified in the standard, management would need to consider whether the KCDC’s current service reporting framework meets all the elements required by the new standard.

# Digital Audit

Each of the components of the EY Digital Audit work together to deliver a quality audit

### The Client Portal

The Client Portal connects us directly to you. It enables you to securely provide supporting audit evidence, automated uploading the information to EY Canvas and gives you reporting of the status of the audit progress. This streamlines our communications with you and saves you time.




### EY Canvas

Our state-of-the-art global online audit platform is the engine that drives the EY Digital Audit. It enables teams to drive an integrated and consistent audit, allows us to better identify and respond to audit risks and leverage our industry experience to customise our audit approach.

### EY Atlas

Our global accounting and financial reporting research platform, keeps our audit team up-to-date with the most relevant accounting, auditing and industry information globally. This enables us to share accounting precedents efficiently and deliver a more relevant audit.

### EY Helix

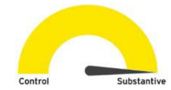
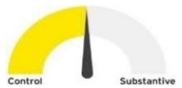
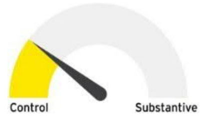
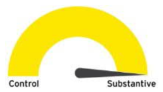
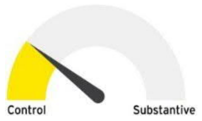
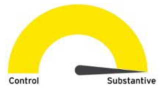
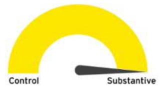
Our library of Analyzers and tools provide better, more relevant audit evidence and a deeper understanding of your business. EY Helix is fully integrated with our audit approach and enables us to focus on the risks and issues that matter.

# Assessment of Internal Control Environment

## Controls Reliance

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 2018 control findings during our audit to check if management's responses have been implemented during the year as agreed.

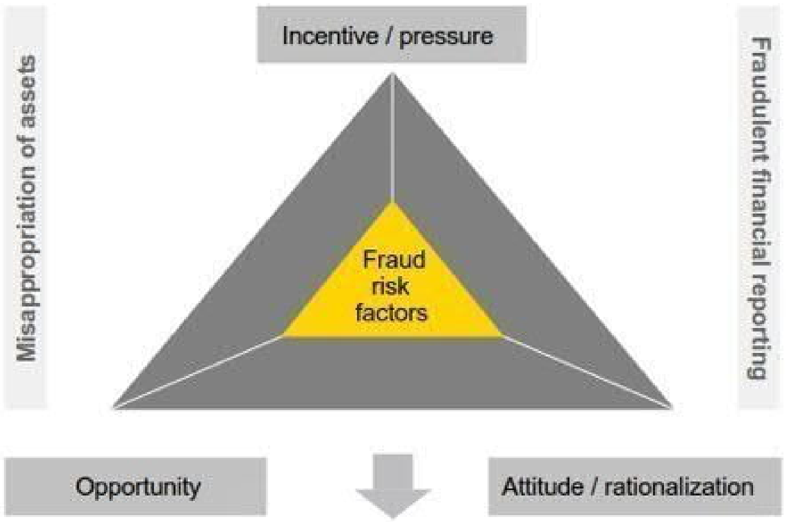
We have set out to the right a table which summarizes the level of controls reliance we expect to achieve in the key financial statements processes.

| Process | Approach |
| --- | --- |
| Financial statement close |  |
| Infrastructure Assets |  |
| Rates setting and collections |  |
| Purchases and payables |  |
| Other income (Fees and charges & NZTA Funding) |  |
| Payroll |  |
| Non-Financial Performance Information Reporting |  |
| Debt Facilities and Derivatives |  |

## The Risk 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. 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.

When developing our Plan we use professional judgement in determining whether a fraud risk factor is present. We determine fraud risk factors in the context of the three conditions generally present when fraud occurs (i.e., incentive/pressure, opportunity and attitude/rationalisation).



# Your EY Team

We understand that our team is the most important element of your relationship with us.

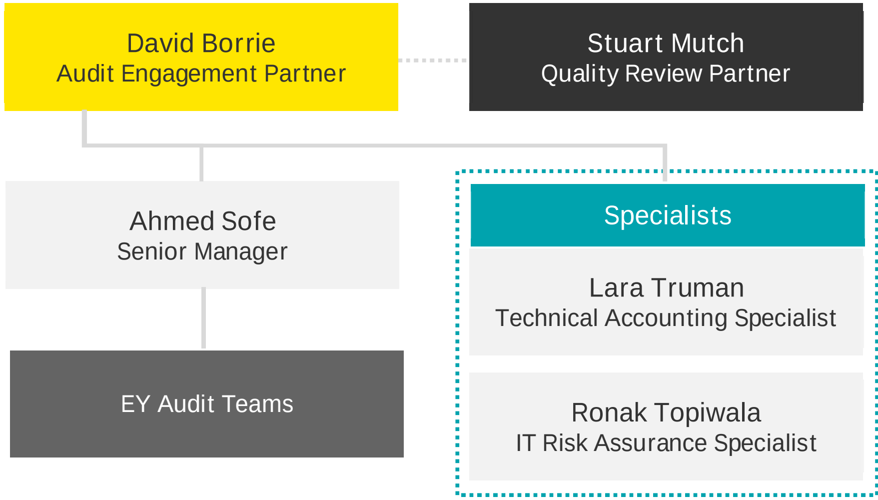
Our team has been involved in the audit of KCDC for a number of years. This stability provides KCDC with continuity, historical knowledge of your business and industry expertise. These combined factors enable us to focus on the significant issues facing your organisation. Further we have incorporated experts from our IT and Technical Accounting teams to assist us in addressing the financial risks facing the Council.

## Team rotation

We believe that the periodic rotation of the key decision makers on the audit assists with maintaining our independence and bringing a fresh view. We actively plan rotation well in advance of the required rotation period to ensure that you benefit from a smooth transition.

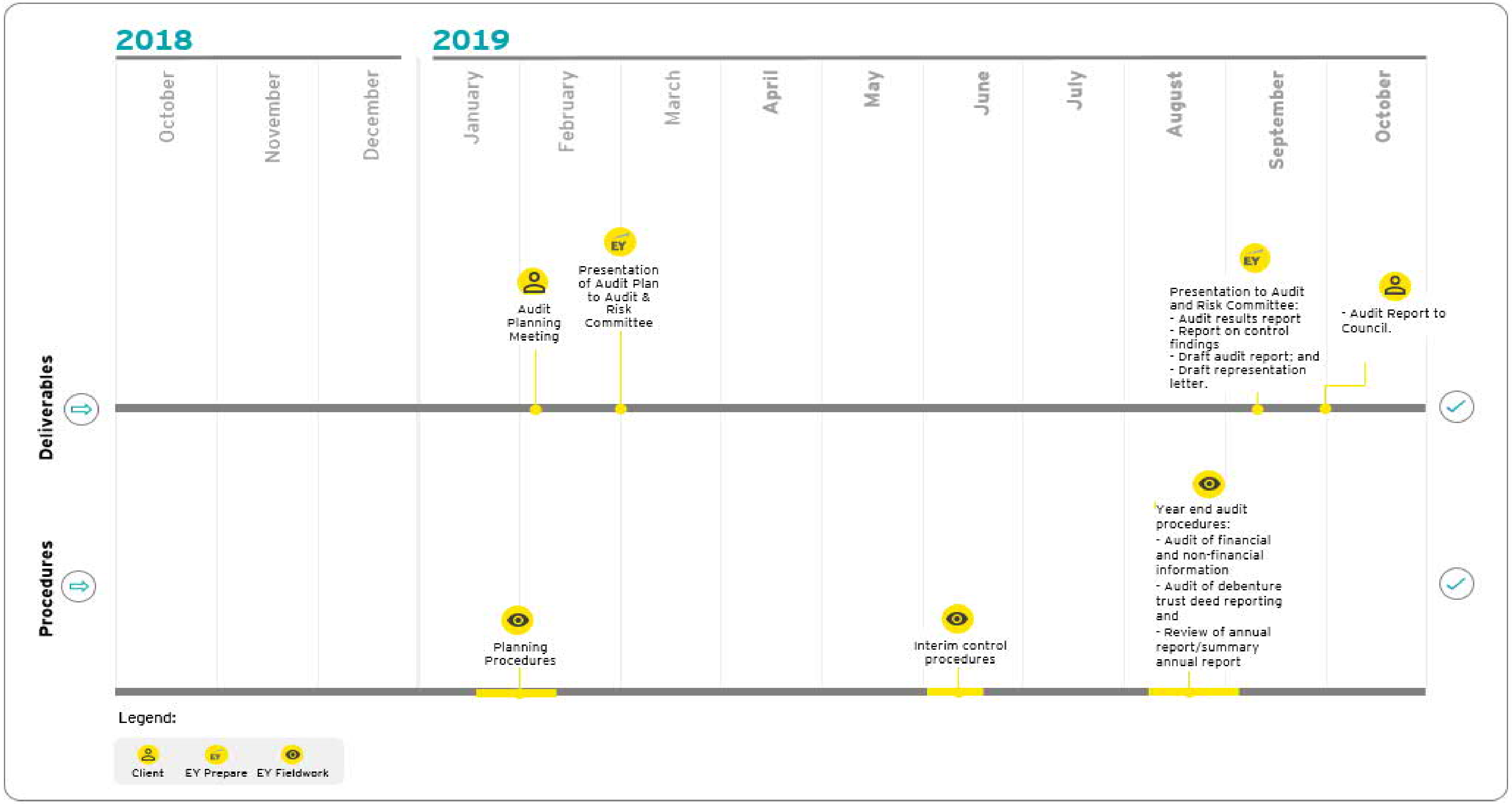
Our executive team will continue to be David Borrie and Ahmed Sofe as Audit Engagement Partner and Senior Manager. Marcus Henry will be replaced by Stuart Mutch as the audit Quality Review Partner.

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



# 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

## Independence

How we are meeting your independence requirements.

## Other communications

Provides information to be communicated with those charged with governance.

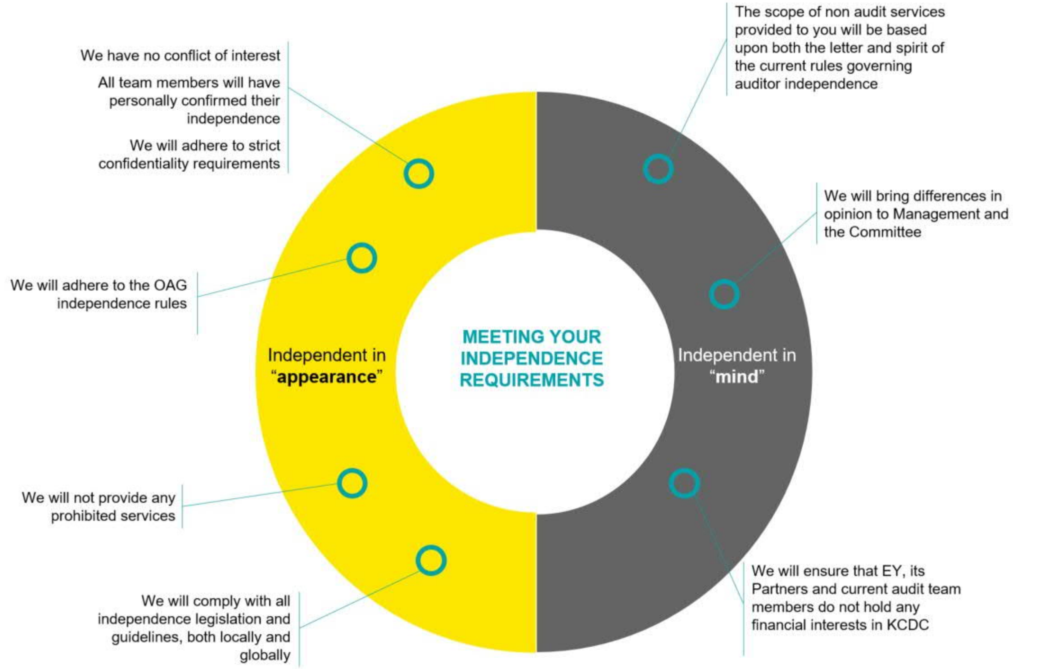
# Independence

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.

We have consistently complied with all professional regulations relating to auditor independence including those outlined in:

- PES 1 Code of Ethics for Assurance Practitioners
- OAG independence rules

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



# Communication with those charged with governance

| Matter | Required communication | Reference |
|---|---|---|
| Terms of engagement | • Confirmation by the Committee of acceptance of terms of engagement<br>• 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<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• 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<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• 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<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• 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:<br>  ◦ Non-disclosure by management;<br>  ◦ Inappropriate authorisation and approval of transactions;<br>  ◦ Disagreement over disclosures;<br>  ◦ Non-compliance with laws and regulations; and<br>  ◦ Difficulty in identifying the party that ultimately controls the entity. | Audit Closing Report or sooner if appropriate |

# Communication with those charged with governance

| Matter | Required communication | Reference |
|---|---|---|
| External communications | • Management’s refusal for us to request confirmations<br>• 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<br>• 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:<br>  • Whether the events or conditions constitute a material uncertainty;<br>  • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and<br>  • 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 or sooner if appropriate |

EY | Assurance | Tax | Transactions | Advisory

About EY

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

EY refers to the global organisation, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organisation, please visit ey.com.



ED 0419 (cover)



ey.com