



Westland District Council

Audit Plan for the year ending
30 June 2022

Issued: 04 May 2022



WELCOME



Dear Audit and Risk Committee Members

We are pleased to present our Audit Plan ("Plan") for the audit of the financial statements and performance reporting of Westland District Council ("WDC" or "the Council") for the year ending 30 June 2022. 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 2022 audit.

We conduct our audit in accordance with the Auditor General's auditing standards which incorporate International Standards on Auditing (New Zealand). Our audit will be conducted to provide reasonable assurance that the financial statements and service performance information for the year ending 30 June 2022 are free of material misstatement.

Our Plan has been prepared based on our understanding of WDC and the local government sector. We have considered, and will continue to consider, WDC's current and emerging operating risks, assess those that could materially affect the financial statements and performance reporting 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.

Should you have any questions or comments, please do not hesitate to contact us on 027 489 9939 (Brendan) or 027 406 4588 (Breno).

Yours faithfully



Brendan Summerfield
Partner
4 May 2022

Breno Branco
Senior Manager
4 May 2022

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EXECUTIVE SUMMARY

AREAS OF AUDIT FOCUS

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Key areas of focus where there are potential risks and exposure



The areas of audit focus and level of complexity or management judgement applied are:

- ▶ Infrastructure Assets HIGH
- ▶ Integrity of rates strike, rates invoicing and collection MEDIUM
- ▶ Non-financial performance reporting LOW
- ▶ Grants and Subsidies LOW
- ▶ Debt LOW
- ▶ Controls over operating expenditure, payroll, procurement and tendering LOW

AUDIT APPROACH



We will seek to rely on controls in the key financial statement processes and therefore expect to take a controls-based approach where possible.

We plan to test controls for the following financial statement processes:

- Rates setting and collection
- Payroll
- Accounts Payable and Expenditure

The nature and extent of our controls testing is dependent on, and considers whether, the control environment of WDC is operating effectively.

We will take a substantive approach in areas of significant management judgement or where this has been assessed as more efficient or effective. Processes that we audit substantively are:

- ▶ Financial Statement close process
- ▶ Infrastructure asset management
- ▶ Non- Financial performance reporting
- ▶ Other revenue (fees, grants and subsidies)

PLANNING MATERIALITY

\$541K



Our materiality threshold has been set at 2% of Council's operating expenditure as forecast for 2022 in the Long Term Plan . We will report to the Risk & Assurance Committee errors of more than \$27k.

Materiality will be set individually for each significant performance measure selected for testing.

We will confirm our independence throughout the audit and remain in compliance with *NZ: NZICA Code of Ethics and the Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) independence requirements* and the Auditor General's independence requirements.

INDEPENDENCE



ENGAGEMENT SCOPE



We are engaged to audit the financial statements and performance information of WDC on behalf of the Auditor-General. The Auditor-General has confirmed our appointment for 2022-2025.

We regularly engage with management as part of our audit planning and execution. We have set out on [Slide 12](#) a summary of our communications and deliverables throughout the 2022 audit.

ENGAGEMENT TEAM



We understand our team is an important element of your relationship with us. Brendan Summerfield will lead the engagement as audit partner and will be supported by Stuart Mutch as independent partner and Breno Branco as senior manager.



Infrastructure assets

Our understanding

Infrastructure assets represent a significant component of the Council's balance sheet with carrying values of the following amounts at 30 June 2021:

 Assets	 \$million
Roading network and land under roads	235
Three waters	66
Other	48
Total value	349

All Valuations are carried out on a three to five-yearly cycle by independent qualified valuers or in-house peer reviewers, unless there is a significant change in carrying value, in which case they will be revalued as required. Transportation assets are valued by BECA, and other assets are valued by council staff and peer reviewed by BECA.

The integrity of the classification of maintenance and/or capital expenditure is important for the perspective of correct classification in the financial statements and in terms of improving asset condition and extending the expected useful life.

As part of the Three Waters Reform Programme, the Government has announced that it will establish four Water Service Entities. The four new entities will replace the services currently managed by the 67 territorial local authorities. Current expectation is that an implementation bill will be introduced during 2022 and an economic regulation bill will be introduced in early 2023. The Government expects the four new entities to be operational from 1 July 2024. There still continues to be a lot of detail to be worked through to determine Council involvement and this will likely require disclosure in the Annual Report and Audit Opinion. This is a matter that we are monitoring on an ongoing basis given the significance of this change upon the sector.

Planned Audit Approach

- For infrastructure assets that will be revalued this year, we will review the completed valuation for appropriateness and obtain a reliance letter from the independent valuer engaged by WDC. In particular, we will review key inputs to the valuation and consider valuation techniques for appropriateness.
- We will review that the information provided to the valuer to assess the appropriateness of data used in the valuation and if this is reflective of the data in Council's registers.
- For infrastructure assets that will not be revalued this year, we will review managements assessment of the assumptions underlying the historical valuation to check if values remain appropriate based on current data. We will also discuss with management potential indicators of impairment at balance date.
- We will review whether depreciation estimates have been recorded in the current year based on prior period valuations.
- We will obtain assurance in relation to the appropriateness of work in progress (WIP) cut-off at balance date and confirm the carrying value of WIP is supportable in relation to both valuation and that the nature of the costs are in line with PBE IPSAS 17.
- We will consider the progress on the Three Water Reform Programme to the extent it impacts the 30 June 2022 Annual Report, including from a disclosure perspective.

Key Judgements :

Relevant accounting standards: PBE IPSAS 17 Properties, Plant and Equipment

Level of complexity or management judgement: HIGH





Integrity of rates strike, rates invoicing and collection

Our understanding

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. Failure to comply with rating law and the associated consultation requirements can create significant risks to the integrity of rates revenue.

The following table reflects a summary of the rates revenue recognised by the Council at 30 June 2021:

 Rates Revenue	 2021 Annual Report \$million
General Rates	7.9
Targeted Rates	4.6
Water Rates	3.4
Rates Remissions	(0.4)
Total value	15.5

- The accuracy of a rates strike is dependent on the integrity of the rates database. The reliability of the rates billing system is also key to ensure rates are billed appropriately.
- Certain rate paying groups may represent significant collection risk to the Council.

Planned Audit Approach

- We will obtain an understanding of your rating structure and rates strike.
- We will review WDC's procedures for ensuring the rates set are compliant with the Local Government Rating Act.
- We will test the controls over the rates levying process to assess whether these are operating effectively.
- We will examine any provision for doubtful rates debtors to consider whether it is appropriate in the circumstances of collectability.
- On a sample basis, we will undertake a review of the billing to specific ratepayers and subsequent collection.

Key Judgements:

Relevant accounting standards: *PBE IPSAS 23 Revenue from Non-Exchange Transactions*

Level of complexity or management judgement:

MEDIUM



Non-financial performance reporting

Our understanding

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 2021/31 LTP is applicable for 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.

There have been changes to the accounting standards in relation to service performance reporting. This has been formalised through PBE FRS 48 *Service performance reporting* which is applicable to all public sector entities. The standard is not effective until periods beginning after 1 January 2022. We have provided more detail in our Focused on the future section within the appendices to our report.

Planned Audit Approach

- We will examine, on a sample basis, service performance measures and check the measures have been accurately reported on and outputs have been achieved where stipulated. For the selected measures, this will include obtaining underlying supporting documentation and re-performing the calculations made by the Council to determine outcomes reported.
- We will assess the completeness and effectiveness of the performance framework utilised.
- We will check whether the mandatory performance measures stipulated by the Non-Financial Performance Measures rules 2013 have been reported appropriately.

Key Judgements:
Selection of measures relevant to reporting non-financial performance:

LOW




Grants, Subsidies and Other Revenue

Our understanding

During 2021/22, council has received additional grants from various government schemes. These grants typically require funding to be spent on a particular project or area of Council’s operations with any unspent funds to be returned.

Any unspent amounts at balance date are recorded under a current liability; Income Received in Advance.

Details of Other revenue, Grants and Subsidies and their financial statement impact in the year ended 30 June 2021 are noted below:

Grant/Subsidy/Fees and charges	 Revenue \$million
Other Revenue	30.6
Provincial Development Unit	6.6
NZTA Govt Grants	4.0
Other Subsidies	3.9
Fees and charges	2.1
Total value	47.2

Planned Audit Approach

We will perform the following audit procedures in order to validate the revenue during the year and liability positions recognised as at year end:

- Obtain and review funding agreements for significant grants and subsidies to understand revenue recognition principles and any clawback obligations implicit in the agreements.
- For contracts requiring regular progress reporting, we will obtain the most recent communication with the provider to understand project status and whether estimated completion is on schedule.
- For NZTA claims, we will check claim calculations will appropriately factor in the funding assistance rates for each type of expenditure.
- We will check underlying costs on a sample basis, to supporting documentation to verify that Council is claiming expenditure that is relevant to the requirements of the agreement.
- Review significant expenditure either side of balance date to ensure expenditure and corresponding positions are recognised in the appropriate period.
- For a sample of grants and subsidies, we will vouch the receipt of funds to Council bank statements.
- Obtain an understanding and breakdown of significant other revenue and perform testing to assess if revenue is being appropriately recognised.

Key Judgements: Appropriateness and measurement of costs included in claim, Funding Assistance Rates applied within the claim
 Relevant accounting standards: [PBE IPSAS 23 Revenue from Non-Exchange Transactions](#)
 Level of complexity or management judgement: LOW



Debt

Our understanding

Council has drawn down approximately \$21.8 of debt through a facility with the Local Government Funding Agency (LGFA).

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 reporting certificates.

The Long-Term Plan 2021-2031, outlines the Council intends on increasing their borrowing to fund future key capital projects. Council's management of the increasing debt position, interest charges and legislative disclosures will become an increased focus in future audits.

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 obtain evidence supporting any changes to Council's borrowing obligations and limits with LGFA.
- 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 also complete procedures required of us by the debenture trust deed.

Key Judgements:
Relevant accounting standards: [PBE IPSAS 28 Financial Instruments: Presentation](#), [PBE IPSAS 29 Financial Instruments: Recognition and Measurement](#), [PBE IPSAS 30 Financial Instruments: Disclosures](#)

Level of complexity or management judgement **LOW**



Controls over operating expenditure, payroll, procurement and tendering including sensitive expenditure

Our understanding

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

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

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

- ▶ OAG's controlling sensitive expenditure guidelines for public entities require expenditure decisions to:
 - ▶ Have a justifiable business purpose
 - ▶ Be cost-effective
 - ▶ Preserve impartiality
 - ▶ Be made with integrity
 - ▶ Be moderate and conservative, having regard to circumstances
 - ▶ Be made transparently
 - ▶ Be appropriate in all respects

It is important robust procurement processes are utilised especially for long term, high value contracts. The OAG published another good practice guide in June 2020 called *Managing conflicts of interest: A guide for the public sector which assists public entities in identifying and managing conflicts of interest throughout operations*.

Remuneration of Councillors and those in leadership roles is also an area of interest.

Planned Audit Approach

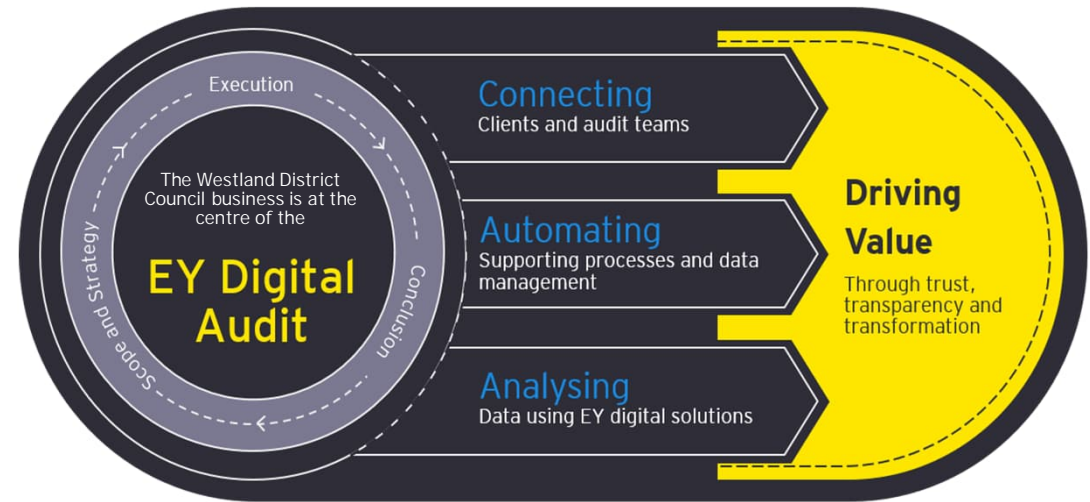
- We will examine, on a sample basis, the use of credit cards and obtain assurance that expenditure has been incurred for a reasonable Council purpose.
- We will examine the application of the procurement policy across a sample of contracts.
- For a sample of expenses, we will complete testing to check if the expenditure is appropriate against the Council's policy and best practice guidelines issued by the OAG.
- We will obtain assurance that appropriate processes and controls over operating expenditure and Councillors' allowances are in place.
- We will obtain an understanding of any internal audit programmes that have occurred during the financial year and obtain any finalised reports relating to these areas of focus.

Key Judgements: Appropriateness of the nature of spending.
Relevant standards: Managing conflicts of interest: A guide for the public sector which assists public entities in identifying and managing conflicts of interest throughout operations
Level of complexity or management judgement: **LOW**

Digital Audit Approach

Your purpose built digital audit for now, next and beyond

Digitalisation continues to be one of the most important drivers of transformation, especially in these changing times. The effects of the COVID-19 pandemic have disrupted the normal accounting and reporting cycle for many companies and accelerated the digitalisation of working environments. It is even more critical now for companies to share trustworthy and readily available financial information for stakeholders.

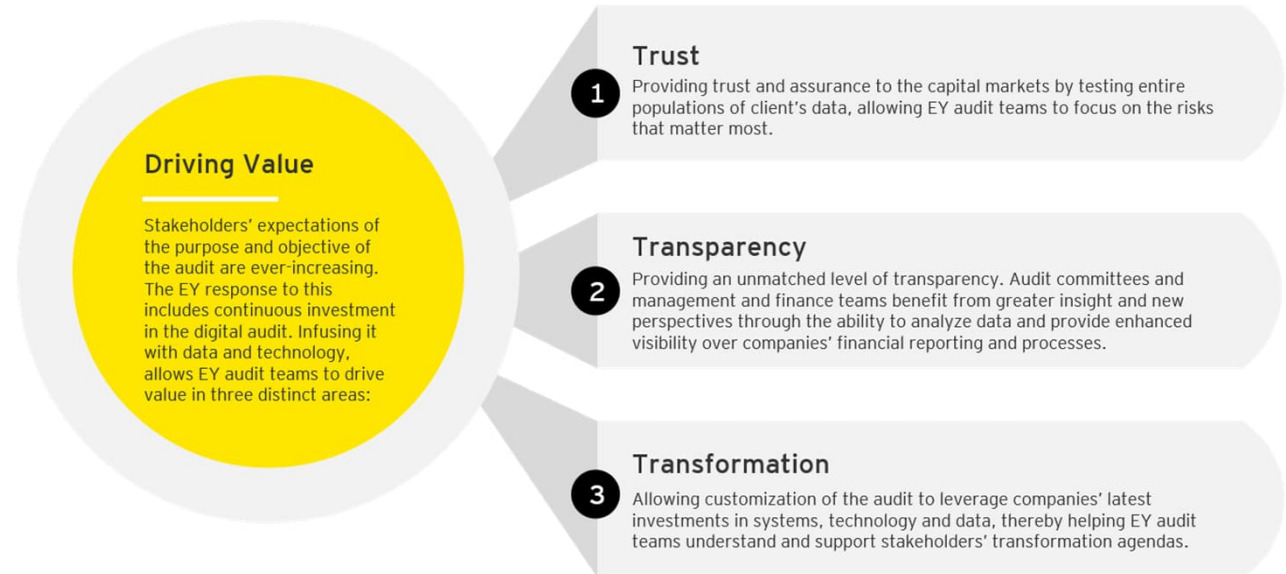


Data-driven Audit

To meet the expectations of stakeholders, regulators and clients of a modern audit, EY has invested over a \$1bn in new technology, revolutionising our professional practice and approach to digital audit.

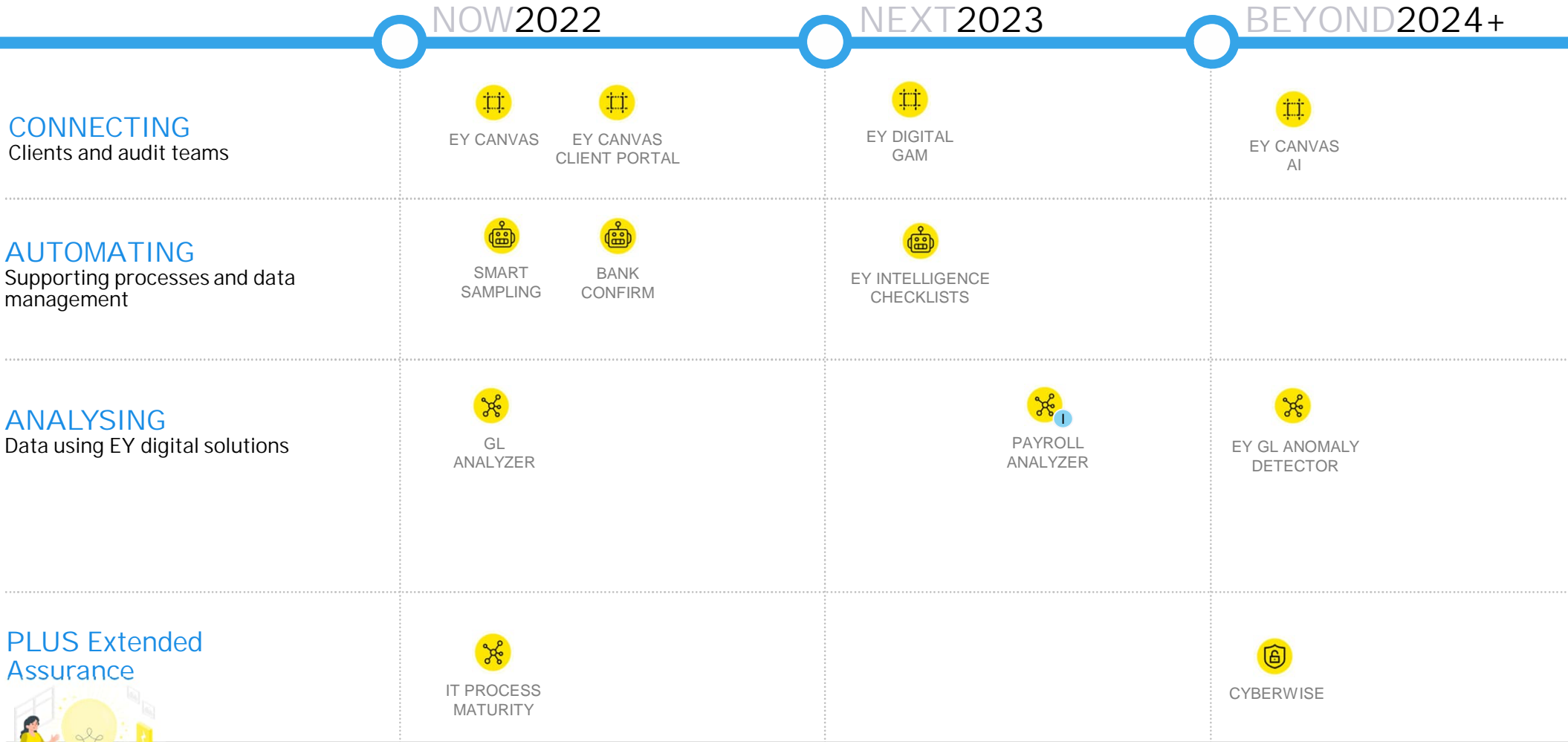
With the EY Digital Audit analysing large or full sets of data from our clients' data population, we are responsive to the changing risk profiles of our clients.

The EY Digital Audit improves the way our auditors look at risk, reduces management burden in supporting the audit and provides new insights to improve Westland District Council's finance processes.



Digital Audit Roadmap

During our planning for the Westland District Council we have established the Westland District Council's Digital Audit Roadmap covering the technologies most applicable to the risks of the business, for the Now, Next and Beyond.



Legend: **P** Pilot **I** Implement

Note: Implemented solutions will be used every year unless specified

Your EY Team

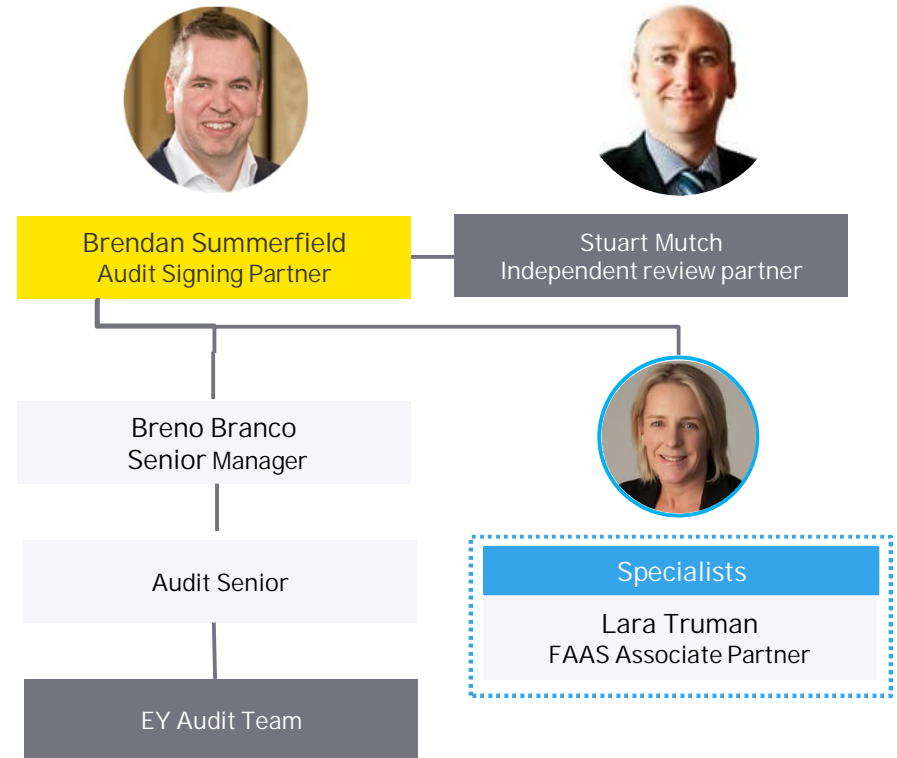
We understand that our team is the most important element of your relationship with us. Brendan Summerfield has been appointed as signing partner on behalf of the Office of the Auditor-General. Brendan will be supported by Stuart Mutch as independent review partner and Breno Branco as audit senior manager

Our team provides WDC with previous Council and public sector experience to your audit. In addition, we utilise appropriate subject matter experts to support the audit i.e. Financial Accounting Advisory Services (“FAAS”) team to assist us in addressing the financial accounting risks. These combined factors enable us to focus on the significant issues facing your business.

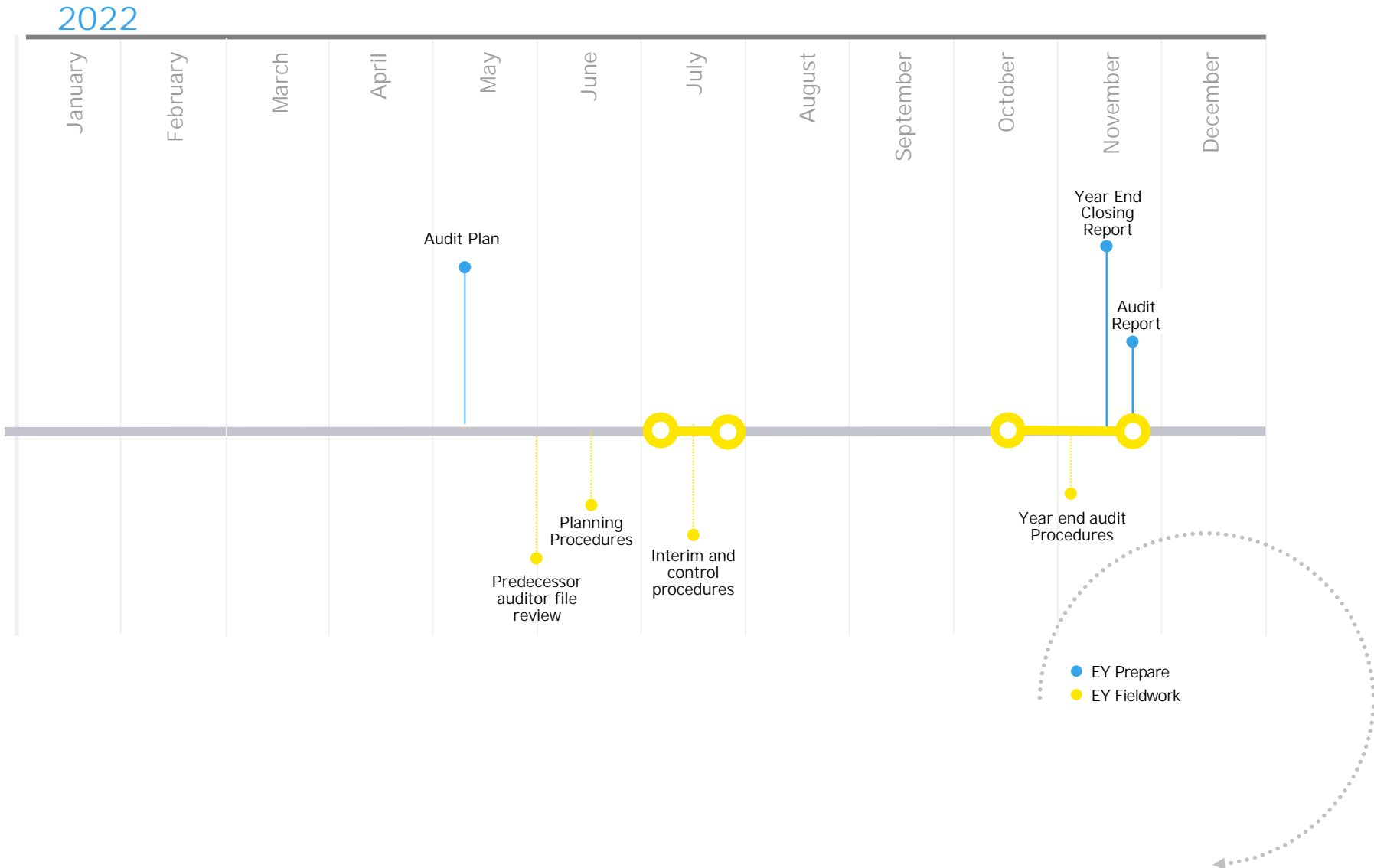
Throughout our audit process, Brendan and Breno will attend the Risk and Assurance meetings and are available to meet the Committee or the Council at any time during the year. Brendan is available to meet with the Risk and Assurance Committee Chair prior to each meeting, at a minimum.

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 benefits from a smooth transition. Brendan will not be due to rotate off WDC until after the 2027 audit.



Engagement Execution



APPENDICES

A. Independence

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B. Data Security and Privacy

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C. Focus on Your Future

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A. Independence

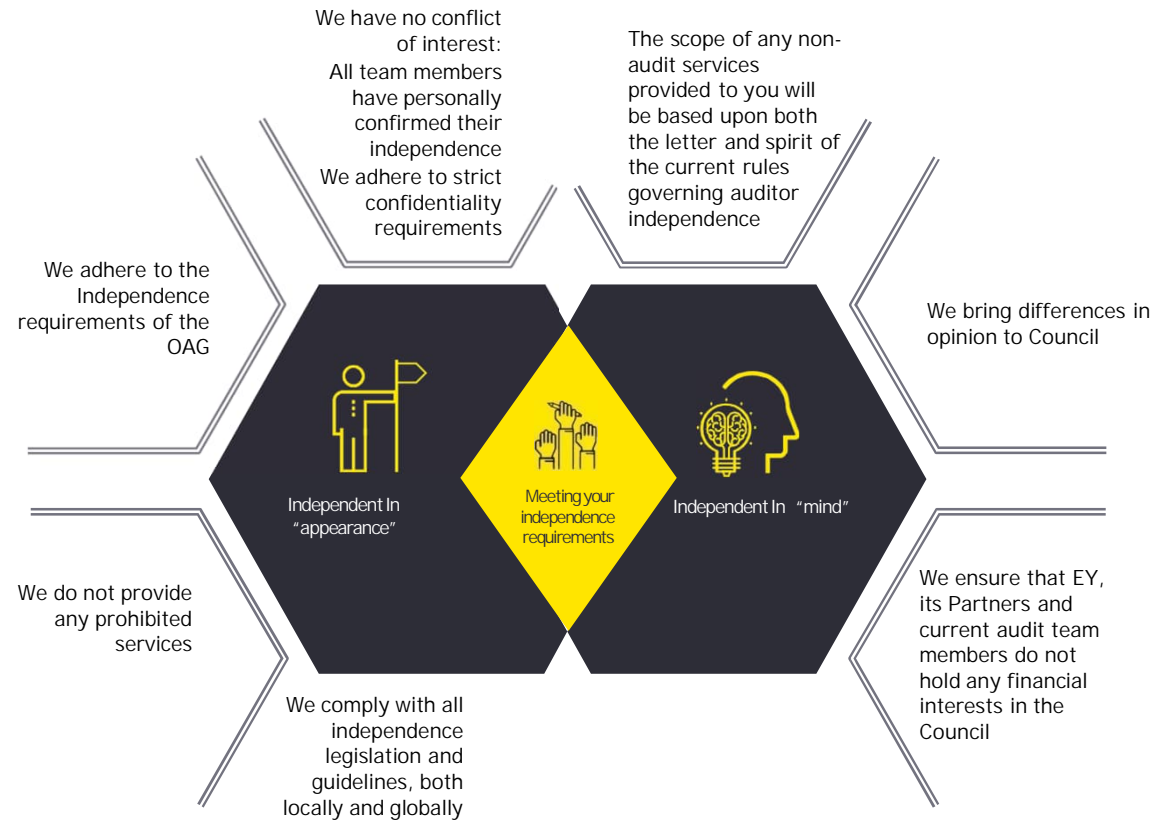
Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet independence requirements.

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

- PES 1 *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*
- Independence requirements of the Office of the Auditor-General

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

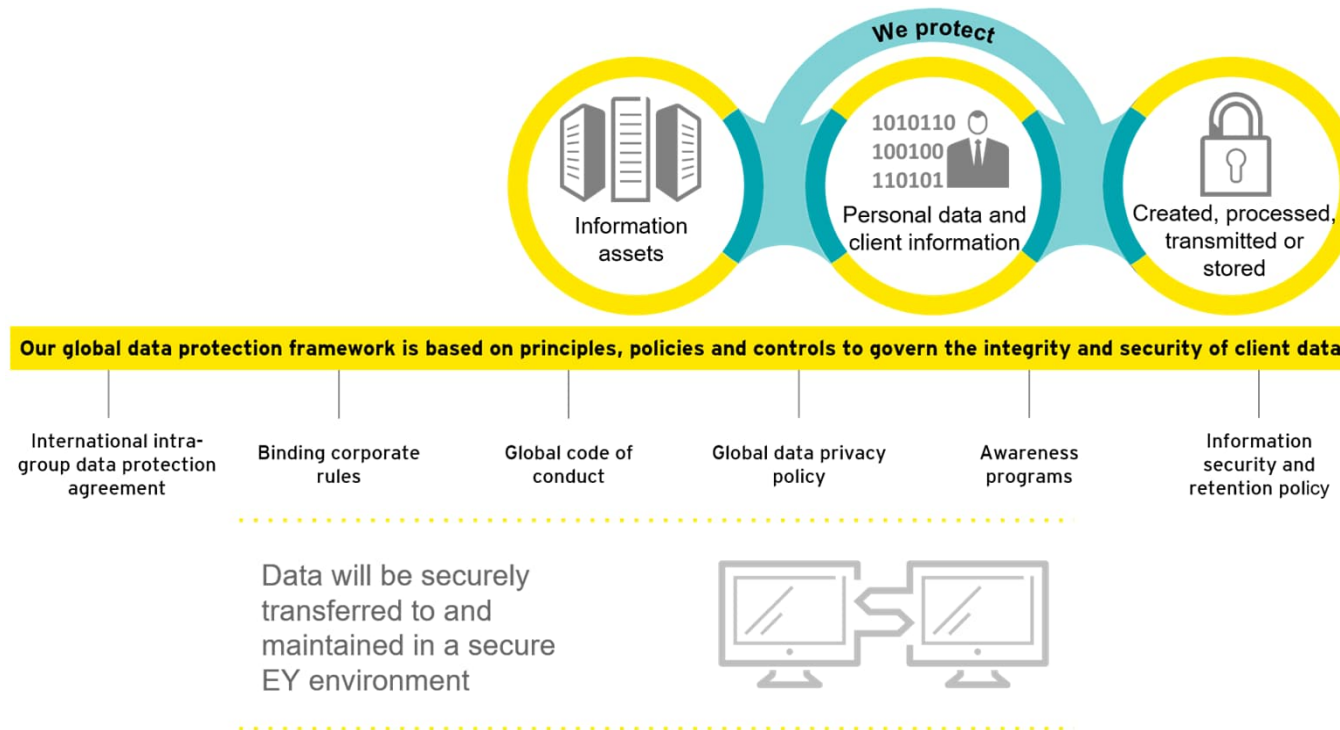
There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Risk & Assurance Committee.



B. Data Security and Privacy

Our ability to provide seamless, consistent, high-quality client service worldwide is supported by a well-articulated data privacy and information security strategy. For the audit of Westland District Council the following applies:

- ▶ Access to EY Canvas is restricted to members of the engagement team only.
- ▶ Audit relevant information is transferred to EY securely via EY Portal or email.
- ▶ More sensitive personal data is loaded into Helix Subledger Analyzers for each component, access is therefore restricted to the relevant component team only.
- ▶ Less sensitive journal entry data is loaded into Helix GL Analyzer for the whole Group and is accessible by component teams who filter and analyse the data relevant to their component.



B. Focused on Your Future

FRS 48 Service Performance Reporting

Background

The NZASB has issued a new accounting standard for PBEs, FRS 48 Service Performance Reporting. This new standard requires the preparation of Statements of Service Performance for PBEs that report in accordance with Tier 1 and Tier 2 PBE standards.

The Standard describes service performance information as information about what an entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information. The standard establishes principles and high-level requirements for the reporting of service performance information rather than specifying detailed reporting requirements. This is due to the standard being applied to a wide range of PBEs.

An explanatory guide to FRS 48, called EG A10, has been issued by the XRB and is published on their website (<https://www.xrb.govt.nz/accounting-standards/not-for-profit/explanatory-guide-eg-a10/>).

PBE IPSAS 41 Financial Instruments

Background

PBE IPSAS 41 introduces a new model for classifying financial assets, whereby financial assets are classified based on the nature of their underlying cash flows and the business model under which the assets are held and managed.

PBE IPSAS 41 introduces a new, forward-looking impairment model based on expected credit loss ("ECL"), which is different to the current "incurred loss" model in PBE IPSAS 29. The new impairment model will impact financial assets recognised at amortised cost (e.g. trade receivables) and debt instruments recognised at fair value through other comprehensive revenue and expense, as well as lease receivables.

Even for those PBEs that are not financial institutions and have simple financial assets, the standard will require consideration of the model an entity uses to assess impairment. It is expected that the new model will bring forward the recognition of impairments.

New Accounting Standards

Recommendations

For the year ended 30 June 2023 WDC is required to prepare a Statement of Service Performance under legislation and the new standard will primarily result in disclosure changes as opposed to the primary content of the existing Statement of Service Performance changing. Likely disclosure changes include providing the details of the judgements associated with selecting and measuring performance metrics.

PBE IPSAS 41 is applicable to WDC for the year ended 30 June 2023. WDC holds financial instruments, including:

- ▶ Contractual receivables and payables
- ▶ Loans

The new impairment model is unlikely to significantly affect short-term receivables of WDC, but may have a significant impact on longer-term financial assets. When applying the new model, WDC should consider the following:

- ▶ When assessing assets for impairment under PBE IPSAS 41, WDC will need to estimate and recognise credit losses arising from possible future default events, rather than recognising impairment only once indicators of default occurs, as per PBE IPSAS 29.

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ED None

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