

Audit, Risk and Improvement Committee Meeting

PUBLIC BUSINESS AGENDA

Audit, Risk and Improvement Committee
Public Meeting will be held in the Council Chamber,
Torphin Crescent, Tokoroa
On Wednesday, 22 March, 2023
Commencing at 8.30am

OUR VISION

“Healthy people thriving in a safe, vibrant and sustainable community.”

Audit, Risk and Improvement Committee

Membership

Chairperson	Independent Chair – Rachael Dean
Councillors	Cr Nelis Cr Te Kanawa Cr Wallace
Independent Member	A Byett
Ex Officio	Mayor
Quorum	Half the number of members, one of whom must be the Chair or Deputy Chair.
Meeting frequency	Quarterly

Purpose

The purpose of the Audit, Risk and Improvement Committee is to assist and advise the governing body in discharging its responsibility and ownership of governance, risk management and internal control. The committee will:

- Monitor the effectiveness of Council's performance management and performance information.
- Obtain assurance from management that all financial and non-financial control and risk management functions are operating effectively and reliably.
- Provide oversight of the implementation of accepted audit recommendations.
- Ensure Council effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behaviour.
- Provide oversight of preparation of the Long-Term Plan (LTP), Annual report and other external financial reports required by statute.

Role

Internal Audit

- Evaluate the quality of the internal audit function, particularly in the areas of planning, monitoring and reporting.
- Review, approve and monitor the implementation of the internal audit plan.
- Review the reports of the audit function dealing with findings, conclusions and recommendations.
- Review and monitor managements responsiveness to the findings and recommendations – enquiring into the reasons that any recommendation is not acted upon.

Risk Management

- Evaluate whether processes are in place to address key roles and responsibilities in relation to risk management.
- Review, endorse and monitor the implementation of financial policies, framework and strategy.
- Review the effectiveness of risk management and internal control systems including all material financial, operational, compliance and other material controls. This includes legislative compliance (including Health and Safety), significant projects and programmes of work and significant procurement.
- Review risk management reports identifying new and / or emerging risks.

External Audit

- Discuss with the external auditor before the audit commences:
 1. the nature, scope and fees of the external audit
 2. areas of audit focus
 3. error and materiality levels.
- Review with the external auditors' representations required by elected members and senior management.
- Review the external auditor's management letter and management responses and inquire into reasons for any recommendations not acted upon.

Power to Act

The committee:

- has no decision-making powers other than those in these terms of reference.
- may request expert advice through the chief executive where necessary.
- may make recommendations to the Council and / or the chief executive.

Power to Recommend

To Council and/or any standing committee as it deems appropriate.

The Audit, Risk and Improvement Committee is not delegated authority to:

- Develop strategic policy and strategy.
- Develop Council's Financial Strategy, funding and financial policies and non-financial operational policies and plans.

The Audit, Risk and improvement Committee reports directly to full Council.

Review

The committee's operation, terms of reference and membership will be reviewed after 12 months.

Attendees

Members	Independent Chairperson	R Dean
	Councillors	H Nelis M Te Kanawa S Wallace
	Independent Member	A Byett
	Mayor Ex Officio	G Petley
Staff	Chief Executive	S Law
	Interim Executive Manager Corporate	M Booth
	Interim Executive Manager Operations	J Hassall
	Interim Executive Manager Transformation	D Lascelles
	Acting Chief Financial Officer	W Cortesi
	Communications Manager	K Fabrie
	Minutes	C Cawood

Agenda Confirmed by:

S Law

Chief Executive

*RECOMMENDATIONS contained in reports are NOT to be construed as COUNCIL DECISIONS.
Refer to Council minutes for RESOLUTIONS.*

Order of Business

- 1. **Apologies**5
- 2. **Confirmation of Agenda**.....5
- 3. **Conflicts of Interest**5
- 4. **Confirmation of Minutes**6
- 4.1 Confirmation of Minutes.....6
- 5. **Reports**7
- 5.1 Audit Risk and Improvement Committee External Audit Management Report – 20237
- 5.2 Audit Risk & Improvement Committee Forward Program – 2023.....8

1. Apologies

2. Confirmation of Agenda

3. Conflicts of Interest

4. Confirmation of Minutes

4.1 Confirmation of Minutes

Document Information

That there are no minutes to be confirmed.

5. Reports

5.1 Audit Risk and Improvement Committee External Audit Management Report – 2023

Document Information

Report To:	Audit Risk and Improvement Committee
Meeting Date:	Wednesday, 22 March 2023
Author:	Michael Booth
Author Title:	Interim Executive Manager - Corporate
Report Date:	Friday, 17 March 2023

Purpose

To provide the Committee with a report on the results of the audit by Deloitte of the Council's 2021-22 Annual Report.

Recommendation

1. That the Committee:
Receives and Notes the Report DocSet 619612, Audit, Risk and Improvement Committee External Audit Management Report – 2023

Executive Summary

2. The South Waikato District Council is subject to an annual audit by the Auditor-General in terms of the Public Audit Act 2001 and the Local Government Act 2002. This responsibility has been contracted to Deloitte to conduct the audit on Auditor-General's behalf. A Report on the results of the audit is provided to the Council at completion. The report from Deloitte is contained in Attachments A.

Context

3. Monitoring of Council's External Audit is a key responsibility of the Audit, Risk and Improvement Committee as outlined in its Terms of Reference. The presentation of the Management Report after the signing of the Council's Annual Report is significant milestone in this relationship. The detail discussed in this report is aligned with the Council vision, community outcomes, Council policies and the Council strategy.

Discussion

The attached report outlines External Audit's summation of the results of its 2021-22 audit. It is expected that Deloitte will also take the opportunity to update the Committee on current topical issues from the Auditor-General.

Attachments

Deloitte Report to the Council and Audit Committee

5.2 Audit Risk & Improvement Committee Forward Program – 2023

Document Information

Report To:	Audit Risk & Improvement Committee
Meeting Date:	Wednesday, 22 February 2023
Author:	Michael Booth
Author Title:	Interim Executive Manager - Corporate
Report Date:	Friday, 17 March 2023

Purpose

To provide the Committee with the proposed Forward Work Program of Committee Reports for 2023.

Recommendation

4. That the Committee:
 - a) Receives and Notes the Report DocSet 619603, ARI Committee Forward Work Program 2023.

Executive Summary

5. The forward work program for Committee meetings is set out in Attachments A. It is proposed to include this as a standing agenda item for each Committee meeting. Similar programs have been developed for the Council Council's other committees in consultation with respective Chairs.

Context

6. A Forward Work program is seen as a “better practice” tool to assist Councils to manage and schedule key activities and compliance requirements. The detail discussed in this report is aligned with the Council vision, community outcomes, Council policies and the Council strategy.

Discussion

7. The attached reports outline management’s expected reporting timelines for ARI Committee meetings and workshops for 2023. This information is a useful tool for Committee Members, other Councillors, staff and the community to monitor reporting to, and deliberations by, the Committee, of its various statutory and operational responsibilities. As circumstances can change rapidly it is proposed to include these reports as a standing agenda item for each Committee meeting. Similar programs have been developed for the Council Council's other committees in consultation with respective Chairs.

Attachments

Audit Risk and Improvement Forward Work Program

Council Outcomes

Growth - Activities and strategies that facilitate sustainable economic growth and lift community pride.

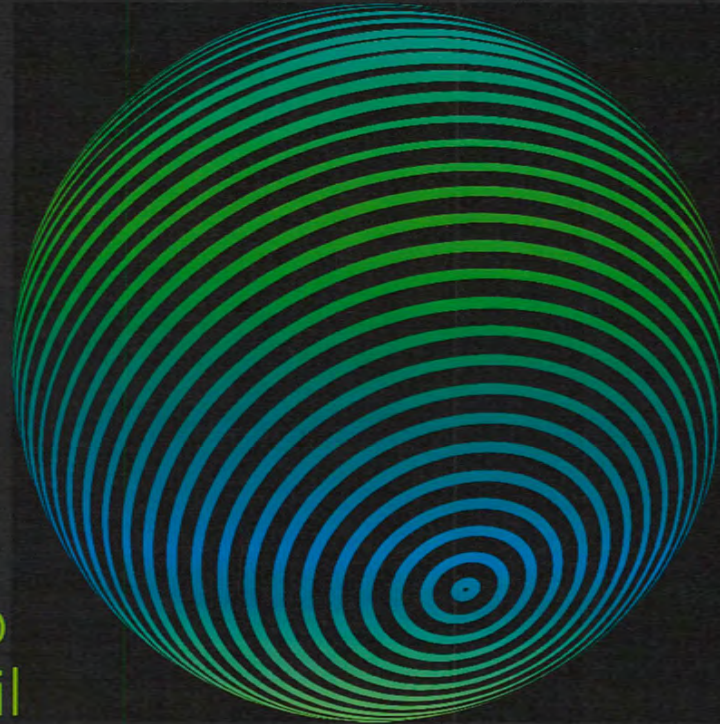
Resilience - A resilient district with good infrastructure, services, a sound financial position, rates affordability and a healthy environment that has the ability to anticipate, resist, respond to and recover from significant change or events.

Relationships - Strong relationships with Iwi and Māori, Pacific Peoples and community and business groups that can achieve growth and a resilient community.

Attachment 619604

Deloitte Report to the Council and Audit Committee

Deloitte.



**South Waikato
District Council**

**Report to the Council and Audit Committee
for the year ended 30 June 2022**

Purpose of report

This report has been prepared for South Waikato District Council's Finance, Audit and Risk Committee (the "Committee") and is part of our ongoing discussions as auditor in accordance with our engagement letter dated 10 June 2022 and as required by New Zealand auditing standards.

This report is intended for the Council and Committee and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.

This report includes only those matters that have come to our attention as a result of performing our audit procedures and which we believe are appropriate to communicate to Council and the Committee. The ultimate responsibility for the preparation of the financial statements rests with the Council.

Responsibility statement

We are responsible for conducting an audit of South Waikato District Council for the year ended 30 June 2022 in accordance with New Zealand auditing standards issued by the Auditor-General that incorporate the New Zealand Auditing and Assurance Standards Board. Our audit is performed pursuant to the requirements of the Public Audit Act 2001, the Crown Entities Act 2004 and the Financial Reporting Act 2013, with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Council. The audit of the financial statements does not relieve management or the Councillors of their responsibilities.

Our audit is not designed to provide assurance as to the overall effectiveness of the Council controls but we will provide you with any recommendations on controls that we may identify during the course of our audit work.

Table of contents

1. Executive Summary

2. Results of the Audit

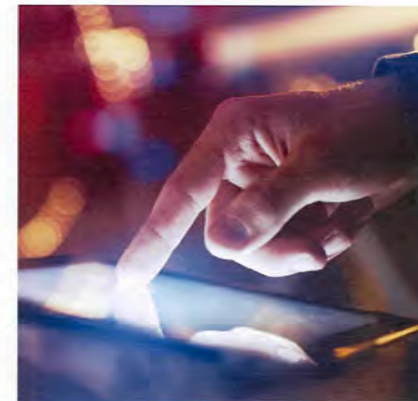
- A. Status of the audit
- B. Areas of audit focus
- C. Internal control findings
- D. Summary of unadjusted differences
- E. Summary of omitted disclosures

3. Other reporting matters

- A. Independence and fees
- B. Other communications

4. Financial reporting and other developments

- A. Developments in financial reporting
- B. Controlling Sensitive Expenditure
- C. Our response to AG ISA (NZ) 240 Fraud: An independent approach



To navigate within this report, you may click on the icons on the right-hand side of the page



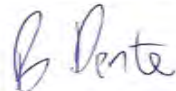
1. Executive summary

We are pleased to present this report to the Council and Audit Committee on the financial statement audit of South Waikato District Council (the 'Council') for the year ended 30 June 2022.

Included in this report are the results and insights arising from our audit which we consider appropriate for the attention of the Council and Audit Committee. These matters have been discussed with management and their comments have been included where appropriate. We also include those matters we are required to report to you in accordance with the auditing standards.

This report is intended for the Council and Committee and should not be distributed further.

We would like to take this opportunity to extend our appreciation to management and staff for their assistance and cooperation during the course of our audit.



Bruno Dente
Partner
for Deloitte Limited
Appointed Auditor on behalf of the Auditor General
Hamilton | March 2023

Status of our audit



The audit is largely complete, with only a few remaining areas outstanding as noted in the 'Results of the audit' section of this report.

Key areas of audit focus

Key areas of audit focus	Findings
Fair value of infrastructure assets	
Management's ability to override controls	
Revenue recognition	
Government reviews and proposals	
Impact from COVID-19	
Public Sector Procedures	
Statement of Service Performance	



Completed, no issues noted



Completed, insights identified



Completed, significant findings identified

We comment further on our findings in these key areas of audit focus in Part 2 of this report.



1. Executive summary (cont.)



Unadjusted differences

The table summarises the impact of uncorrected misstatements on the financial statements with further detail in Part 2 of this report.

(\$ millions)	As presented (000's)	Aggregate unadjusted misstatements (000's)	Adjusted Balance (000's)
Assets	622,805	(390)	622,415
Liabilities	(50,082)	205	(49,877)
Equity	(572,723)	185	(572,538)
Net Income	3,442	(185)	3,257

Materiality was set at \$1.2million and we have reported to you any misstatements identified over our current year reporting threshold of \$63,550.



Other matters of interest

Three Water Reform

An emphasis of matter has been included in the audit report with regard to the Government introduced legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities with effect from 1 July 2024. The impact of these proposed reforms, once legislated, will mean that the council will no longer deliver three waters services or own the assets required to deliver these services. The bill is currently before Parliament and as such, the impacts of the proposed reforms are currently unclear. Additional legislation is expected later that will provide detail on the transfer of assets and liabilities to the water service entities.

© 2023. For information, contact Deloitte Touche Tohmatsu Limited.



Control observations



■ New ■ Recurring ■ Remediated

The above summarises the extent of control observations raised in the current year compared to the prior year, with more detail in Part 2 of this report.



Quality and Independence

We take our independence and the quality of the audit work we perform very seriously. We confirm that we have maintained our independence in accordance with Professional and Ethical Standards.

There are no non-audit services or relationships which may reasonably be thought to bear on our independence.








2. Results of the audit






© 2023. For information, contact Deloitte Touche Tohmatsu Limited.

2A. Status of the audit

As of the date of this report, the status of our audit is summarised as follows:

Stage of audit	Progress	Details of outstanding items
Planning		
Controls testing		
Substantive testing		
Financial reporting		<ul style="list-style-type: none"> • Council to approve the financial statements and representation letter • Completion of subsequent event procedures
Regulatory matters		<ul style="list-style-type: none"> • Trustee Reporting

Scope legend	 Several audit procedures are outstanding.	 Audit work is complete with the exception of some minor points. We do not expect additional matters or observations to arise from closure of these outstanding procedures.	 Audit work is complete
--------------	---	--	--



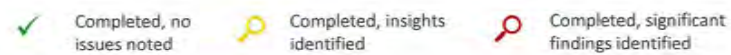
2B. Areas of audit focus – dashboard

Area of audit focus	Significant risk	Fraud risk	Level of management judgement required	Findings
Fair value assessments of infrastructure and roading assets	✓	✗	●	🔍
Management's ability to override controls	✓	✓	N/A	🔍
Revenue recognition	✗	✗	●	✓
Government reviews and proposals	✗	✗	●	✓
Impact of COVID-19	✗	✗	●	✓
Public sector specific procedures	✗	✗	●	🔍
Statement of Service Performance	✗	✗	●	🔍

Level of management judgement required



Findings



2B. Areas of audit focus – Valuation of Infrastructure Assets

Risk identified

The Council has a significant asset base with infrastructural assets carried at fair value.

Each asset class is revalued on a regular basis, generally on a three year basis. In years when an asset class is not revalued, a fair value assessment needs to be performed.

In the current year, the three waters infrastructure and roading assets have been revalued due to the carrying value being materially different to the fair value. The valuation of these assets are complex therefore an independent valuer has been engaged to peer review and prepare a valuation report as at 30 June 2022.

The other asset classes (land and buildings, parks and reserves) held at fair value required a fair value assessment to ensure that the carrying value did not differ significantly from fair value.

Audit response

For the current year, we note that there has been a \$48.12 million uplift and \$57.27 million in the fair value of three water infrastructure and roading assets respectively. The valuation method applied to the valuations is a optimised depreciated replacement approach.

As part of the audit we have:

- Obtained representation directly from the independent valuers utilised confirming their methodology applied;
- Reviewed the key underlying assumptions used to ensure these assumptions are reasonable and in line with the Public Benefit Entity International Public Sector Accounting Standards ("PBE IPSAS"). These assumptions were challenged to ensure they were appropriate; and
- Ensured the revaluation adjustments are correctly accounted for and disclosed in the financial statements of the Council at year end in compliance with PBE IPSAS;

We also reviewed the assessment undertaken by management to support that the carrying value is approximate to the fair value (for those assets that have not been revalued in the current year but are revalued on a cyclical basis) Management's assessment of the movement in the fair value of assets relative to the carrying value of assets indicates an immaterial difference for land and buildings and parks and reserves. We do not deem the total fair value movement of circa \$8.3 million to be a significant movement over the asset base of \$545million. On this basis we concur with managements assessment that a revaluation was not required in the current year.

Audit findings

We have identified findings that will be reported separately in our management letter. As part of our audit we have not identified any significant issues with regard to the valuation performed in the current year to warrant a material adjustment.



2B. Areas of audit focus – Management’s override of controls

Risk identified

ISA (NZ) 240 The auditor’s responsibility to consider fraud in an audit of financial statements requires us to presume there are risk of fraud in management’s ability to override controls.

We are required to design and perform audit procedures to respond to those risks and therefore this is a focus area for our audit.

Management’s override of controls is identified as a fraud risk because it represents those controls in which manipulation of the financial results could occur.

It has a potential impact to the wider financial statements and is therefore a significant risk for our audit.

Audit response

During our audit we have:

- Obtained an understanding and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements;
- Tested the appropriateness of a sample of journal entries and adjustment and made enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments;
- Reviewed accounting estimates for biases that could have resulted in material misstatements due to fraud and assessed whether the judgements and decisions made (even if individually reasonable indicated a possible bias on the part of management);
- Performed a retrospective review of management’s judgements and assumptions relating to significant estimates reflected in last year’s financial statements; and
- Obtained an understanding of the business rationale of significant transactions that we became aware of that were outside the normal course of business or that otherwise appeared to be unusual given our understanding of the entity and its environment.

Audit findings

We have not identified any significant issues with regards to the management override of controls. We have identified areas of improvement and these are reported in a separate report to management.



2B. Areas of audit focus – Rates revenue

Risk identified

Failure to comply with rating law and the associated consultation requirements can create risks for rates revenue. Compliance with the detail of the Local Government (Rating) Act 2002 (LGRA) is vital; if the rate is not within the range of options and restrictions provided for in that Act, it may not be valid.

Management and Council need to ensure that the requirements of the LGRA are all adhered to and that there is consistency between the rates resolution, the funding Impact Statement for that year, and the Revenue and Financing Policy in the respective Long Term Plan (LTP) or Annual Plan (AP)

Audit response

During our audit we have:

- Tested relevant controls to address the risk of revenue recognition;
- Assessed the quality of information produced from the IT system and ensure accuracy and completeness of reports that are used to recognise revenue. Please note we did not rely on the IT processes;
- Completed a 'rates questionnaire' compiled by the OAG, to confirm whether rates have been correctly set; and
- Reviewed the meeting minutes recording the adoption of the rates resolution, to ensure the rates were in accordance with the Revenue and Financing Policy as well as reviewing any other information available with regards to rates;
- Complete analytical procedures by developing expectations based on our knowledge of the sector and key performance measures; and
- Assess the impact of any changes to revenue recognition policies.

Please note that the completion of the 'rates questionnaire' is not a legal exercise but aims to provide us with some indication of the rates setting processes being used by the Council. We remind Council that the overall responsibility for the compliance of rates rests with the Councillors.

Audit findings

No matters came to our attention with regard to rates revenue.



2B. Areas of audit focus – Government reviews and proposals

Risk identified

Government reviews and proposals

There continues to be change in the sector with new regulatory requirements (new and updated national policy statements) in place or proposed (most notably the three waters reform), and other areas being considered by the Government. This constant change makes it challenging for councils to plan ahead, particularly because of uncertainties of regulatory settings and the significant cost implications of these changes.

Three waters reform

The Government is currently carrying out the Three Waters Reform Programme.

The first phase of the reform was establishing Taumata Arowai. The next phase of the reform is for water service delivery. The Government has announced that it will establish four Water Service Entities as a part of its Three Waters Reform Programme. The four new entities will replace the services currently managed by 67 territorial local authorities.

Currently there is still a lot of detail to be worked through (including how council ownership will work in practice). A working group has been established to consider representation, governance and accountability of the new Water Services Entities.

Audit response

During our audit we have:

- Continued to follow up on the impact of these initiatives to the Council; and
- Maintained close communication with the Office of the Auditor-General ('OAG') if there are any other areas that requires further consideration.

We also draw to your attention that, the OAG has assessed that the 2021/22 audit opinions for Councils impacted by three waters reform will include an emphasis of matter paragraph with the following proposed wording:

Without modifying our opinion, we draw attention to note [x] on page [x], which outlines that, in June 2022, the Government introduced legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities with effect from 1 July 2024. The legislation received royal assent from the Governor-General on 14 December 2022. The impact of these reforms will mean that the District Council will no longer deliver three waters services or own the assets required to deliver these services. Additional legislation is expected in 2023 that will provide detail on the transfer of assets and liabilities to the water service entities.

Audit findings

No other matters were identified other than the audit report impact above.



2B. Areas of audit focus – Impact of COVID-19

Risk identified

The long-term impact of Covid-19 in New Zealand, and how it might affect public entities still remains uncertain given the rapid changes in the current economic environment.

There are also changes to the working environment and the ability to be flexible and work from home. This can have an impact on the control environment.

Key impacts for 2022 largely relate to asset valuations where there has been a significant shift in CPI, construction costs and supply chain issues. The upwards shift in prices has had an upward increase in the current year valuations.

Audit response

During our audit we have:

- Increased professional scepticism placed around management override of controls and other control processes;
- Reconfirmed that reporting and internal control systems are in place and are designed and implemented appropriately;
- Heightened professional scepticism to challenge key assumptions applied by management in accounting estimates throughout preparation of the financial accounts;
- Continued to follow up on the impact of these initiatives to the Council; and
- Factored the impacts of COVID-19 into affected areas of testing.

Audit findings

No other matters were identified other than the audit report impact above.



2B. Areas of audit focus – Public sector specific procedures

Risk identified

A number of good practice guides are made available by the OAG on its website, with recently published guides relating to:

- Managing sensitive expenditure;
- Managing conflicts of interest; and
- Severance payments

Good practice involves the establishment of policies and controls to ensure that relevant focus areas have been made transparent and are appropriate in all aspects.

This includes expenses to have justifiable business purpose; preserve impartiality; have been made with integrity; are moderate and conservative; have regard to the circumstances; have been made transparently and with proper authority.

A copy of these guides are accessible here:

<https://oag.parliament.nz/good-practice/good-practice-guides>

Audit response

During our audit we have:

- Checked whether the Council have reviewed the sensitive expenditure policy against the OAG good practice guide and update where appropriate;
- Continued to remain alert to issues and risks related to effectiveness and efficiency, waste and a lack of probity or financial prudence;
- Test a sample of items of sensitive expenditure against the OAG's guidelines for probity, performance and waste;
- Inquired with management as to how the Council is comfortable that its employees know how to identify, disclose and manage a conflict of interest;
- Inquired with management if there is any severance payment and perform testing where appropriate;
- Assessed related party transactions and disclosures to ensure these are complete and accurate; and
- Selected a sample of legislation and assess the Council's compliance with this legislation.

Audit findings

We would like to draw your attention to the overpayment of Board Member fees which was identified in the current year. Although it is not material, it is important to ensure that the fees are paid in accordance with the Local Government Determination 21/22 guidelines. This has been reported in our management letter.

No other significant issues were identified during the course of the audit with regard to public sector specific procedures.



2B. Areas of audit focus – Statement of Service Performance

Risk identified

The Council's annual report is required to include an audited Statement of Service Performance (SSP) which reports against the performance framework included in the annual plan/long-term plan.

The SSP is an important part of Council's annual performance reporting and it is important it adequately "tells the performance story" for each group of activities.

Our audit opinion considers whether the service performance information:

- Is based on appropriately identified elements (outcomes, impacts, outputs), performance measures, targets/results; and
- Fairly reflects actual service performance for the year (i.e. not just reports against forecast).

Refer to pages 24 and 25 which outline changes to the standard governing the statement of service performance for the reporting year ending 30 June 2023.

Audit response

During our audit we have:

- Checked whether the Council have reviewed the sensitive expenditure policy against the OAG good practice guide and update where appropriate;
- Continued to remain alert to issues and risks related to effectiveness and efficiency, waste and a lack of probity or financial prudence;
- Test a sample of items of sensitive expenditure against the OAG's guidelines for probity, performance and waste;
- Inquired with management as to how the Council is comfortable that its employees know how to identify, disclose and manage a conflict of interest;
- Inquired with management if there is any severance payment and perform testing where appropriate;
- Assessed related party transactions and disclosures to ensure these are complete and accurate; and
- Selected a sample of legislation and assess the Council's compliance with this legislation.

Audit findings

No significant issues were identified during the course of the audit with regard to public sector specific procedures. We did note one matter which is reported in a separate report to management.



2C. Internal control findings

Assessment of internal control

Our audit approach requires us to obtain an understanding of an entity's internal controls, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error.

We remind you that our audit is not designed to express an opinion on the effectiveness of the controls operating within the Council, although we have reported to management any recommendations on controls that we identified during the course of our audit work.

The matters being communicated are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported. Our recommendations for improvement should be assessed by you for their full commercial implications before they are implemented.

Observations and recommendations in the current period

We have not identified any significant deficiencies in internal controls which would impact upon our ability to provide our opinion.



2D. Summary of unadjusted differences

In performing our audit, we have not identified unadjusted differences that could individually or in aggregate have a material effect on the financial statements for the year ended 30 June 2022.

The unadjusted differences we have identified are set out below. Note the prior year error raised does not have a current year impact therefore is not reported below.

	Assets Dr/(Cr) (\$'000)	Liabilities Dr/(Cr) (\$'000)	Equity Dr/(Cr) (\$'000)	Profit or loss Dr/(Cr) (\$'000)
Unadjusted misstatements identified				
Current year:				
Assets held for sale (overstatement of fair value of assets held for sale)	-390			390
Over accrual (Lack of support for accruals recorded – judgemental error)		205		-205
Overstatement of income and expense related to salary recoveries.				655 -655
Prior year (identified in the current year)				
Overstatement of income and expense related to salary recoveries (prior year/current year impact)			625 -625	
Total	-390	205	-	185



2E. Summary of omitted disclosures

In performing our audit, no material uncorrected disclosure deficiencies were detected in the financial statements. The following omitted disclosures remain uncorrected in the financial statements and management has determined that these do not result in a material misstatement of the financial statements or non-compliance with the applicable legislative framework.

Omitted disclosures assessed by management as not being material	Ref	Management's response
Contingent Liability in regard to a legal dispute is not disclosed	PBE IPSAS 19	Management consider the likely outcome to be immaterial to the financial statements.
The mandatory measure related to part 4 of the drinking water standards is only partially achieved. Although this is reported in the annual report, there is limited disclosure on the water supply that is non-compliant.	n/a	Management consider the likely outcome to be immaterial to the financial statements.
The capping costs associated to the landfill have been included within capital funding when these should be operational to align to the audit adjustment. Noting this does not impact the total FIS therefore not considered material to the user of the FS.	n//a	Management consider the likely outcome to be immaterial to the financial statements.



3. Other reporting matters

© 2021. For information, contact Deloitte Touche Tohmatsu Limited.



19

3A. Independence and fees

The professional fees earned by Deloitte Limited are as follows:

	2022 (\$'000)	2021 (\$'000)
Fees payable for the audit of the financial statements (excl disbursements)	157.9	153.7
Total audit fees for financial statements	157.9	153.7
Other assurance services		
- Fees for the audit of the LTP amendment	54	
- Long Term Plan and Consultation Document		88.2
- Trustee Reporting	7.5	4.5
Total audit related and other assurance fees	219.4	250.6

Please note that as we were required to perform audit work on two valuations in the current year. This has not been included in the fees above and will be charged separately once approved by the OAG.



3B. Other communications (cont.)

The following matters are communicated in accordance with the requirements of New Zealand auditing standards:

Written representation	A copy of the representation letter to be signed on behalf of the Board has been circulated separately.
Accounting policies / Financial reporting	There were no changes in accounting policies during the year ended 30 June 2022. We have not become aware of any significant qualitative aspects of the Council's accounting practices, including judgements about accounting policies, accounting estimates and financial statement disclosures that need to be communicated to the Council.
Related parties	No significant related party matters other than those reflected in the financial statements came to our attention that, in our professional judgement, need to be communicated to the Finance, Audit and Risk Committee.
Other information	We have read the other information (the financial and non-financial information other than the financial statements) contained within the annual report to consider whether there are material inconsistencies with the financial statements.



4. Financial reporting and other developments



© 2021. For information, contact Deloitte Touche Tohmatsu Limited.

22

Developments in financial reporting – overview

The following table provides a high level summary of the major new accounting standards, interpretations and amendments that are relevant to the Council. A full list of the standards on issue but not yet effective is released quarterly and is available here:

https://www2.deloitte.com/nz/en/pages/audit/articles/accounting-alert.html?cid=top_accounting-alert

Major new standard, interpretation or amendment	Effective date (periods beginning on or after)
PBE FRS 48 Service Performance Reporting	1 January 2022
PBE IFRS 9 Financial Instruments	1 January 2022*
PBE IPSAS 41 Financial Instruments	1 January 2022
PBE IFRS 17 Insurance Contracts	1 January 2023

*Will be superseded by PBE IPSAS 41 but early adoption is still permitted if the date of initial application was before 1 January 2020

Early implementation efforts recommended

Early effort to consider the implementation of these standards is recommended in order to provide stakeholders with timely and decision-useful information. Implementation steps are outlined opposite.

Steps for implementation

Determine extent of impact & develop implementation plan

Monitor progress and take action where milestones are not met

Identify required changes to systems, processes, and internal controls

Determine the impact on covenants & regulatory capital requirements, tax, dividends & employee incentive schemes



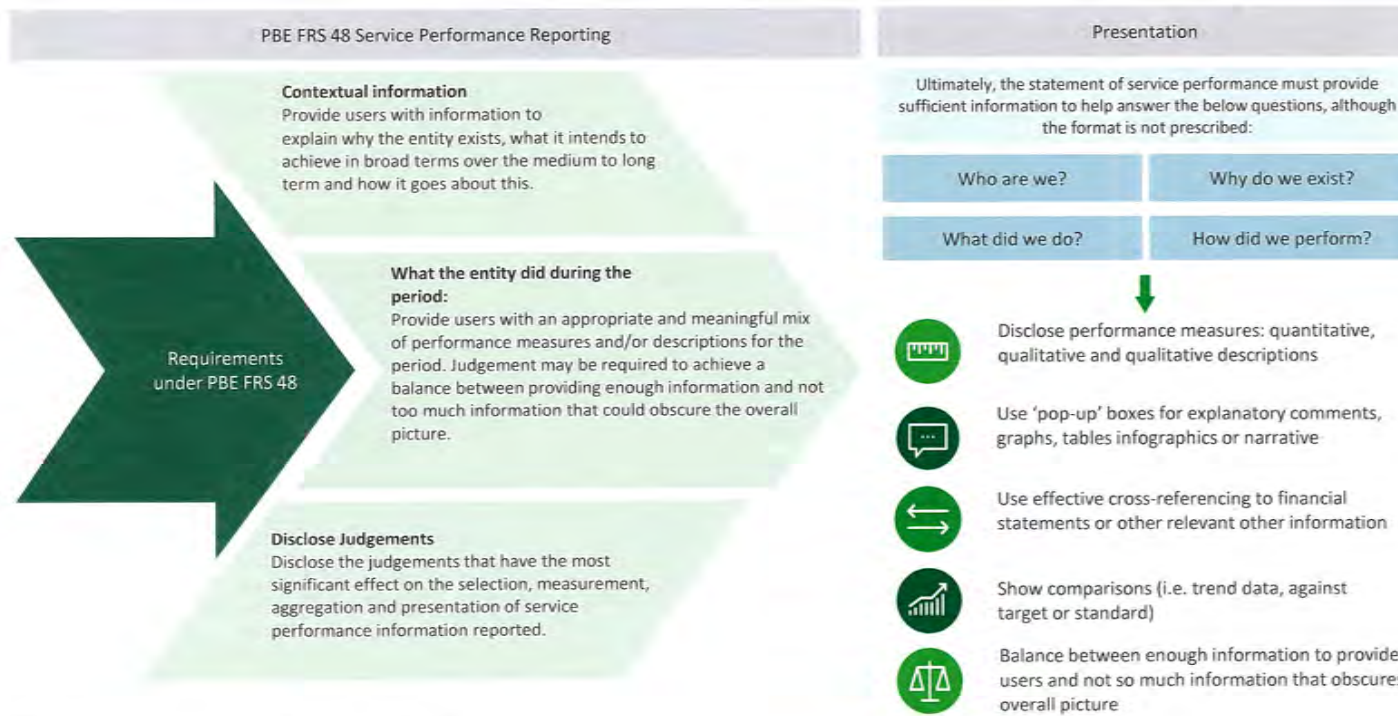
Developments in financial reporting – PBE FRS 48 Service Performance Reporting

PBE FRS 48 *Service Performance Reporting* establishes new requirements for the selection and presentation of service performance information. It applies to Tier 1 and 2 not-for-profit PBEs, and to public sector PBEs which are required by law to report service performance information in accordance with GAAP, and is effective for annual reporting periods beginning 1 January 2022.

The objective of PBE FRS 48 is to establish principles and requirements for presenting service performance information that is useful for accountability and decision-making purposes. The Standard establishes high-level requirements which provide flexibility so that an entity can determine how best to 'tell their story' in an appropriate and meaningful way.



Explanatory guidance available in the XRB's website



© 2023. For information, contact Deloitte Touche Tohmatsu Limited.



24

4B. Controlling sensitive expenditure

There is heightened public sensitivity when public sector employees are perceived to benefit – or do benefit – personally from sensitive expenditure incurred during the conduct of a public organisation’s business.

In October 2020, the Auditor-General published ‘[Controlling sensitive expenditure: Guide for public organisations](#)’ to help public organisations improve, where necessary, their organisational approach to, and control of, sensitive expenditure.

The Guide:

- outlines the Auditor-General’s list of best practices for dealing with sensitive expenditure; and
- will be used by the Auditor-General when carrying out work, including in annual audits.

It is expected that public organisations will implement the principles discussed in this Guide into their sensitive expenditure policies and procedures.

In addition to carrying out regular reviews, monitoring compliance, considering high-risk areas, and making changes to policies and procedures as necessary, the Auditor-General expects that public organisations will implement the principles discussed in this Guide into their sensitive expenditure policies and procedures.

In particular, the Guide specifically emphasises that public organisations should carefully consider the underlying principles listed in [paragraph 2.4](#) (listed below) and the advice in [Parts 4-9](#) (also listed below) before taking a different approach.



Extract from paragraph 2.4:

“There are principles that underpin decision-making about sensitive expenditure. Expenditure decisions should:

- *Have a justifiable business purpose...*
- *Preserve impartiality...*
- *Be made with integrity...*
- *Be moderate and conservative...*
- *Be made transparently...*
- *Be made with proper authority...”*

Extract from table of contents:

- “Part 4: Using credit cards and purchasing cards*
- Part 5: Expenses when travelling*
- Part 6: Entertainment and hospitality expenditure*
- Part 7: Goods and services expenditure*
- Part 8: Staff support and well-being expenditure*
- Part 9: Other types of expenditure”*

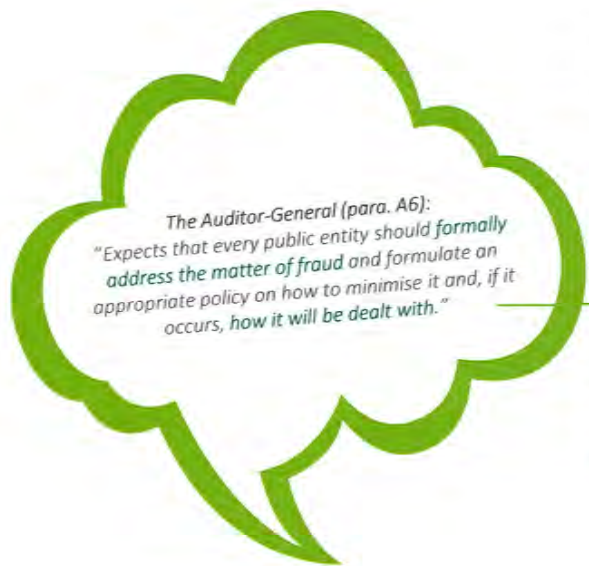


4C. Our response to AG ISA (NZ) 240 Fraud: An independent approach

Previously approved by the OAG as being of an "assurance nature" - complies with AS PES 1 Code of Ethics



The expectation...

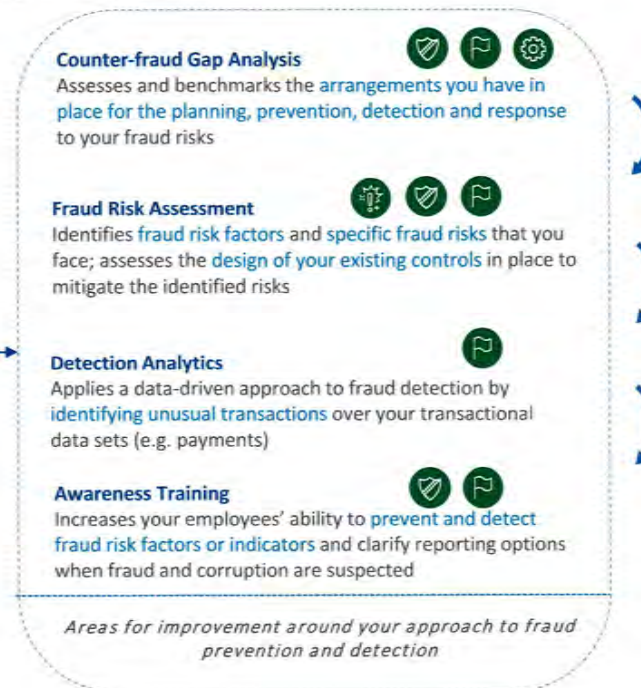


The objectives...

- Identify and assess the fraud risks
- Obtain evidence about the assessed risks
- Respond to fraud or suspected fraud



The OAG has approved our Forensic team to support your response* ...



*These assurance services can be completed independently of each other.

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organisation"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the "Deloitte organisation") serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 312,000 people make an impact that matters at www.deloitte.com.

Deloitte New Zealand brings together more than 1400 specialist professionals providing audit, tax, technology and systems, strategy and performance improvement, risk management, corporate finance, business recovery, forensic and accounting services. Our people are based in Auckland, Hamilton, Rotorua, Wellington, Christchurch, Queenstown and Dunedin, serving clients that range from New Zealand's largest companies and public sector organisations to smaller businesses with ambition to grow. For more information about Deloitte in New Zealand, look to our website www.deloitte.co.nz.

© 2023. For information, contact Deloitte Global.

Attachment 619605

Audit Risk and Improvement Forward Work Program

SOUTH WAIKATO DISTRICT COUNCIL
AUDIT, RISK & IMPROVEMENT COMMITTEE
ANNUAL WORKPLAN
2023

Responsibility	Consideration	March	June	September	December
Financial Reporting	Review of Financial Reports		X	X	X
	Review proforma financial statements		X		
	Review Annual Financial Statements			X	
	Review significant accounting issues		X		
	Review management assurance statement			X	
	Review financial reporting timetable and milestones		X	X	
External Audit	Audit Briefing on topical issues, performance audits	X	X	X	X
	External Audit Plan		X		
	Closing Report			X	
	Final management letter	X			X
Internal Audit	Review performance				X
	Status of Annual Plan		X		
	Review internal audit reports		X	X	X

Responsibility	Consideration	March	June	September	December
	Review and endorse 3 year strategic plan				
	Review internal audit charter				X
Audit Issues	Review issues register		X	X	X
Risk Management	Review risk management framework		X		
	Consider reports on management review of risk registers		X	X	X
	Review fraud and corruption control plan			X	
	Update on actual frauds and losses		X		
	Review cyber risk response			X	
	Review insurance arrangements				X
Compliance	Assess management reports on compliance risk		X		
	Review incidents of non-compliance		X	X	X
Governance arrangements	Review governance structure. including financial delegations				X
	Review management oversight of major projects and outsourced functions			X	
	Review reports on major projects including issues and progress		X	X	X

Responsibility	Consideration	March	June	September	December
	Review annual report				X
Audit Committee Effectiveness	Review committee and member performance				X
	Review and endorse committee charter				
Improvement	Review reports on process and procedure improvement		X	X	X
Policies	Review reports on new policies		X	X	X
	Review status report policy register		X		