

# Audit plan

## Far North District Council

For the year ended 30 June 2020

# Audit plan

I am pleased to present our audit plan for the audit of Far North District Council for the year ended 30 June 2020. The purpose of this audit plan is to discuss:

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The contents of this plan reflects the discussions we have had with the Chief Executive and management.

We will be happy to elaborate further on the matters raised in this plan.

Our work improves the performance of, and the public's trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely



David Walker  
Appointed Auditor  
8 July 2020

# Audit risks and issues

## Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

## Impact of COVID-19

In recent weeks there has been a global response to COVID-19. This has created significant uncertainty for all entities across the public sector as well as communities and families. While we expect this will create a number of issues that will impact on your business and Annual Report we have not attempted to detail these in the audit plan, given events continue to evolve and the implications are changing day-by-day.

Our primary response at this stage is to make sure our staff are safe and that we continue to work collaboratively and safely with the Council to complete your audit. We plan to meet with management where possible, and maintain up to date with the implications of COVID-19 for as this continues to develop in the coming weeks and months. As the audit issues become clearer we will look to discuss these with management, update our audit planning and include updates and conclusions in our reporting to the Council. This may also require us to complete additional work which we will discuss with you.

Audit risk/issue	Our audit response
<b>Carrying value of assets (subject to periodic revaluations)</b>	
<p>Far North District Council recognises a range of asset classes at fair value in its financial statements.</p> <p>The Council is required to carry out valuations with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>Given the ongoing movements in construction costs, there is a risk that the fair value is materially different from carrying value.</p> <p>The Council will therefore need to formally assess whether fair value is materially different from carrying value and whether a valuation is required. This assessment needs to be completed early in the audit process so that, if a full valuation is required, there is sufficient time for this to be completed, and the accounting entries processed.</p>	<p>We will review Council's assessment of whether a full valuation of various asset classes is required for the year ended 30 June 2020.</p> <p>If a revaluation is undertaken, we will:</p> <ul style="list-style-type: none"> <li>• review the valuation process, including source data collection, methodologies, and the reasonableness of any significant assumptions applied;</li> <li>• obtain confirmation from the valuer(s) that the valuations comply with relevant accounting and valuation standards and are appropriate for inclusion in the financial statements; and</li> <li>• check that Council has correctly accounted for the revaluations in its financial statements.</li> </ul>

Audit risk/issue	Our audit response
	We will also review any disclosures made by Council in the notes to its financial statements for compliance with PBE IPSAS 17, <i>Property, Plant and Equipment</i> .

#### Carrying value of Property, Plant and Equipment measured at cost and intangible assets

<p>For Property, Plant and Equipment (PPE) held at assets, Council is required to assets have been undertake an annual assessment for indicators of impairment in accordance with the accounting intangible any impairment charges have been asset work in progress, which is required to be tested for impairment. IPSAS 21, <i>Impairment of</i></p> <p>Due to the subjectivity involved in making this assessment, there is an inherent risk that the carrying values of PPE measured at cost and intangible assets are overstated.</p> <p>In recent years there has been an increase in severe weather events. These have had an impact on local infrastructure in the far north. It has not always been clear how the Council has considered this when valuations have been undertaken or when it has been undertaking its impairment assessments.</p>	<p>We will determine whether: cost and intangible appropriately assessed by management for impairment; and standards. The bar is even higher for</p> <p>accounted for in accordance with PBE <i>Non-cash</i></p> <p style="text-align: center;"><i>Generating Assets.</i></p>
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#### The risk of management override of internal controls

<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• testing the appropriateness of selected journal entries;</li> <li>• reviewing accounting estimates for indications of bias; and</li> <li>• evaluating any unusual or one-off transactions, including those with related parties.</li> </ul>
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Audit risk/issue	Our audit response
<b>Accounting for controlled entities</b>	

<p>The Far North District Council group is made up of a number of entities. As Council is the ultimate parent entity in the group, there is a need for determining what entities need to be accounted for in Council's group financial statements as well as ensuring there are appropriate processes in place with these entities to get relevant information for inclusion in Council's parent and group financial statements.</p> <p>Council will also need to assess the impact of the different accounting framework that are in place across the FNDC group and ensure appropriate adjustments are made in the group financial statements.</p> <p>This is especially important this financial year given the implementation of new accounting standards that may impact on the Council. The following standards come into effect for the financial year beginning 1 July 2019:</p> <ul style="list-style-type: none"> <li>• PBE IPSAS 34 <i>Separate Financial Statements</i>.</li> <li>• PBE IPSAS 35 <i>Consolidated Financial Statements</i>.</li> <li>• PBE IPSAS 36 <i>Investments in Associates and Joint Ventures</i>.</li> <li>• PBE IPSAS 37 <i>Joint Arrangements</i>.</li> <li>• PBE IPSAS 38 <i>Disclosure of Interests in Other Entities</i>.</li> </ul>	<p>We will review management's considerations on whether an entity is controlled by Council for financial reporting purposes.</p> <p>If Council has elected to not consolidate a controlled entity on the basis of materiality then we will look to review management's assessment of the entities financial statements for this financial year. It will be important that management has processes in place to obtain this information in preparation of this year's financial statements.</p> <p>We will need to consider if these fall within the legal mandate of the Auditor-General and if a subsequent audit of these entities is required.</p> <p>We will also review Far North District Council's assessment for PBE IPSAS 34 - 38 and ensure that the standards have been appropriately applied in the financial statements.</p>
<b>Reinstatement of four well-beings to the Local Government Act 2002</b>	
<p>The Government has reinstated the "Four well-beings" to the Act. The purpose of local government is once again "to promote the social, economic, environmental, and cultural well-being of communities".</p> <p>The Act has reintroduced the requirement for a local authority's Annual Report to describe any identified effects that any activity within the group of activities has had on the social, economic, environmental, or cultural well-being of the community, as opposed to the previous more general requirement to describe those effects on "the community" per clause 23(d) of Schedule 10 of the Local Government Act 2002.</p>	<p>We will review Far North District Council's proposed disclosure and ensure that the Annual Report for the year ended 30 June 2020 complies with Schedule 10 of the Act disclosures.</p>
<b>Audit risk/issue</b>	<b>Our audit response</b>

Now that the requirement has been reintroduced, Council will need to ensure that the Annual Report complies with Schedule 10 of the Act disclosures for the year ended 30 June 2020.	
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Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

## **Fraud risk**

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. In this regard, we will discuss the following questions with you:

- What role does Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to Council? Has appropriate action been taken on any lessons learned?

### ***Our responsibility***

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at [oag.parliament.nz/reports/fraud-reports](https://oag.parliament.nz/reports/fraud-reports).

## Group audit



The group comprises:

- Far North District Council.
- Far North Holdings Limited.
- Te Ahu Charitable Trust.
- Twin Coast Cycle Trail Charitable Trust (Pou Herenga Tai).
- Roland's Wood Trust.
- Far North Regional Museum Trust.
- Northern Adventure Experience Limited.

Our auditor's report covers the group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the group. In designing our group audit approach, we considered the structure of the group and identified the entities which are included in the group financial statements. Each entity is referred to as a component.

We have assessed the risks of material misstatement and have identified our approach for each component and at this stage considered only the Council to be a significant component of the group.

For non-significant components, we will perform analytical procedures at the group level to identify unexpected movements.

We will report any significant internal control deficiencies to the Council and management of the group.

# Our audit process



Initial planning activities include verifying compliance with independence requirements and building the audit team.



We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of Far North District Council, your business, and the environment you operate in.



We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.



We update our understanding of internal controls relevant to the audit. This includes reviewing the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is done during the initial audit visits. We evaluate internal controls relevant to the audit for the whole financial year, so we consider internal controls relevant to the audit at all visits.



We use the results of the internal control evaluation to determine how much we can rely on the information produced from your systems during our final audit.



During the final audit we audit the balances, disclosures, and other information included in the Council’s financial statements and performance information.



We will issue our audit report on the financial statements and performance information. We will also report to the Council covering any relevant matters that come to our attention.

## Enhancing year-end processes

The year-end financial statement close process and the preparation of the annual report requires a large number of resources to be committed to complete it effectively. This diverts the attention of

your staff away from the current financial year and focuses them on past events. We want the audit process to run smoothly and we will work with management to achieve this through bringing forward the timing of audit procedures.

### **Bringing forward audit procedures**

Substantive audit procedures are traditionally performed after the year-end. Where possible, we will aim to bring audit procedures earlier in the year. This will be focused on:

- testing of year-to-date additions to and disposals of property, plant and equipment;
- testing of year to date additions to work-in-progress (WIP);
- testing of year to date severance payments; and
- testing of year-to-date sensitive expenditure transactions.

Completion of these tests earlier in the year should allow for more timely identification and resolution of errors.

We will work with management to facilitate getting the information required at the right time. We will communicate with management if information is not available as agreed, including any impact on the year-end audit.

### **Materiality**

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

## **Misstatements**

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements we identify to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from representatives of the Council that specify the reasons why the corrections will not be made.

## **Professional judgement and professional scepticism**

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

## **How we consider compliance with laws and regulations**

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

## **Wider public sector considerations**

A public sector audit also examines whether:

- the Council carries out its activities effectively and efficiently;

- waste is occurring or likely to occur as a result of any act or failure to act by the Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the Council or by one or more of its members, office holders, or employees.

# Reporting protocols

## Communication with management and the Council



We will meet with management and the Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

## Reports to Council



We will provide a draft of all reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to Council.

We will also follow up on your progress in responding to our previous recommendations.

# Audit logistics

## Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise Our senior audit team members are:

David Walker	Appointed Auditor
Chantelle Gernetzky/ Dereck Ollsson	Engagement Quality Control Review Director
Trevor Rusling	Audit Manager
Stella Kim	Senior Auditor
Clive Shazell	ISAA Specialist, Information Systems Audit and Assurance

The Engagement Quality Control Review (EQCR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQCR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team.

They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQCR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

## Timetable



While we will endeavour to meet these timeframes, the impact of COVID-19 on our timetable is still unknown and may be subject to change. If changes need to be made to key dates from those detailed below we will discuss this with management Our proposed timetable is:

First Interim audit begins (one week)	6 April 2020
Second Interim audit begins (one week)	4 May 2020
Pre-final audit begins (one week)	22 June 2020
Final audit begins (three weeks)	31 August 2020
Full draft financial statements (including notes to the financial statements) with actual year-end figures and full draft statement of service performance made available to audit	31 August 2020

Underlying work papers supporting the draft financial statements and 31 August 2020 statement of service performance

Final financial statements and statement of service performance available, 21 September 2020 incorporating all the amendments agreed to between us

Annual report available, including any Chair and Chief Executive's overview or reports 21 September 2020

Verbal audit clearance given	28 September 2020
Audit opinion issued/Council adoption of the Annual Report	13 October 2020
Summary annual report available for audit	20 October 2020
Draft final report to Council issued	23 October 2020
Management comments received on final report to Council	2 November 2020
Final report to Council issued	6 November 2020

## Expectations



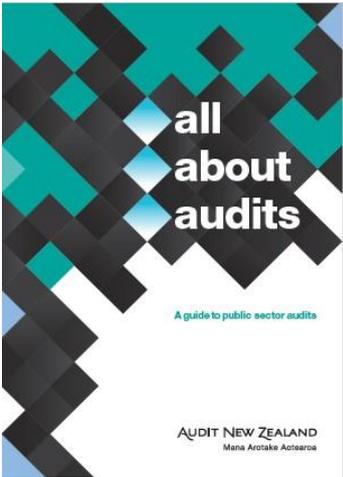
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our Audit Engagement Letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements;
- where there are technical issues or significant uncertainty, you will bring these to our attention as soon as practical and provide us with technical advice the entity has received;
- all estimates, judgements and critical decisions made by management should be the content of a formal paper and subjected to appropriate levels of quality review;
- management will complete an appropriate “financial sustainability”/ “balanced budget” assessment supported by a monthly cash flow for at least 12 months from the proposed date of approving the financial statements that incorporates the financial impacts of COVID-19;
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us; and
- Where there have been major changes in the Councils operations, levels of risk or in the makeup of the Annual Report account balances, we will be advised of these changes and the rationale for them.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to help explain the audit process:



## Health and safety



The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

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