



# Far North District Council

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

### **Purpose of report**

*This report has been prepared for Far North District Council's Audit and Risk Committee (the 'Committee') and is part of our ongoing discussions as auditor in accordance with our engagement letter dated 27 September 2022 and as required by the auditing standard issued by the Auditor-General that incorporate the New Zealand auditing standards.*

*This report is intended for the Committee (and other Council members) 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 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 Far North District Council and its subsidiaries (the 'Group') for the year ended 30 June 2022 in accordance with New Zealand auditing standards issued by the NZ 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 Members. The audit of the financial statements does not relieve management or the Council Members of their responsibilities.*

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

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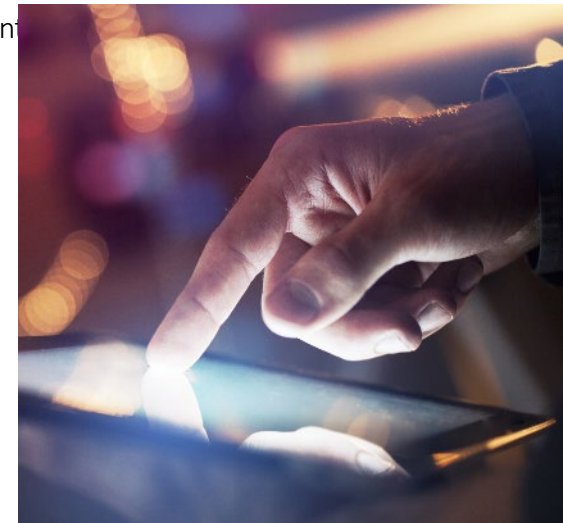
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# 1. Executive summary

We are pleased to present this report to the Committee on the financial statement audit of Far North District Council and its subsidiaries (the 'Group') 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 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 Committee (and other Council members) 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.

*Deloitte Limited*

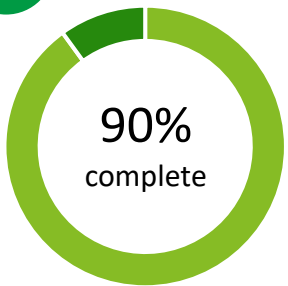
**Bennie Greyling, Partner  
for Deloitte Limited**

Appointed Auditor on behalf of the Auditor-General

Auckland | 20 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

## Findings

Revenue Recognition	✓
Management's ability to override controls	✓
Valuation of infrastructure assets	🔍
Government reviews and proposals	✓
Public sector specific procedures	🔍
Statement of Service Performance	✓



Completed, no  
material issues  
noted



Completed, insights  
identified



Completed, significant  
findings identified



# 1. Executive summary (cont.)



## 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.

Group and Council materiality were set at \$4.9m million and \$4.2million respectively, and we have reported to you any misstatements identified over our current year Group and Council reporting threshold of \$246k and \$214k respectively.



## Control observations

We raised a number of control observations from our audit in section 2C



## Other matters of interest

### Council controlled entities.

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.

### Three waters reform

The Three Waters 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. Our audit opinion will include an Emphasis of Matter paragraph in this regard in line with OAG guidance for Councils.



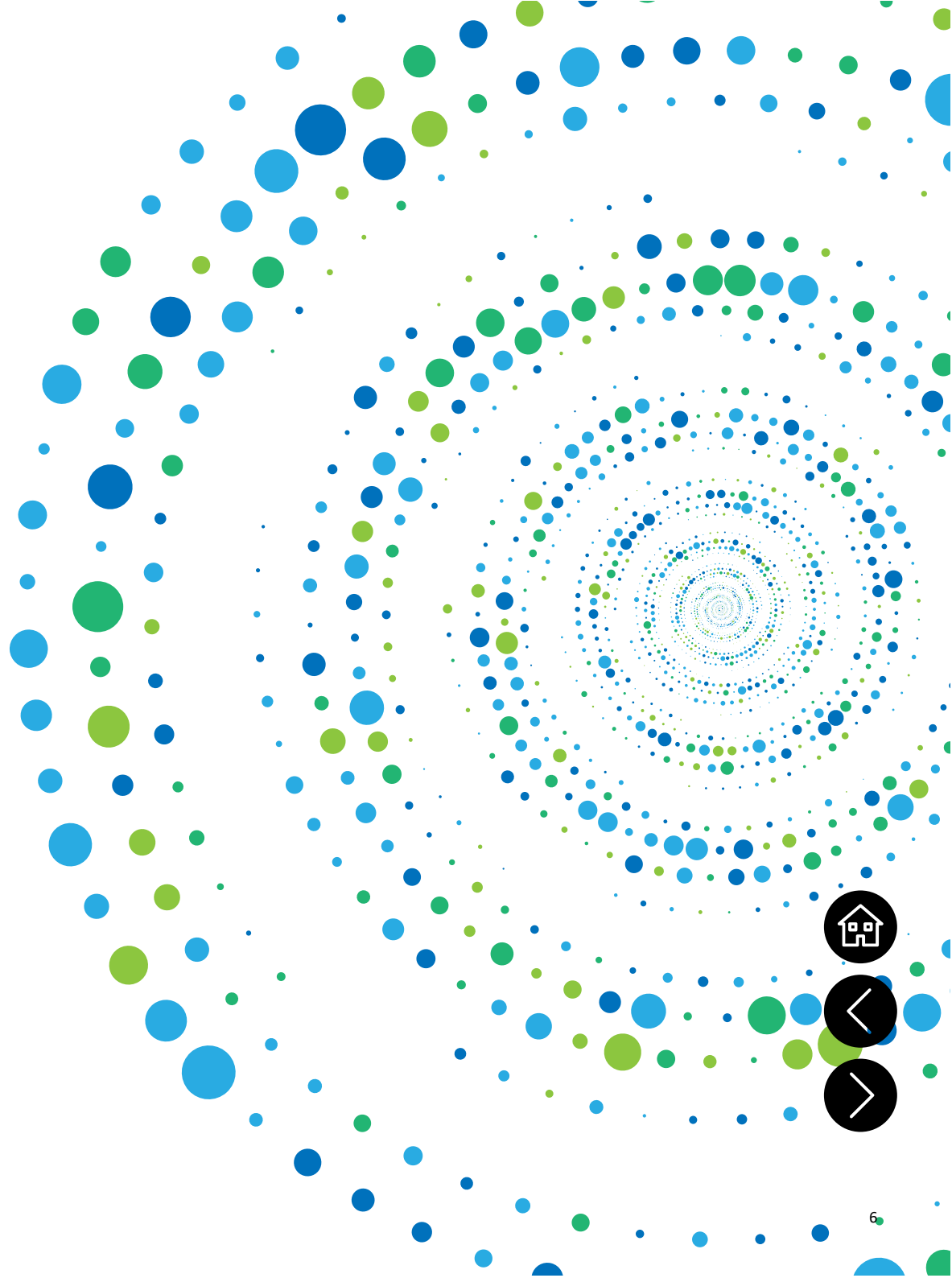
## Quality and Independence

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



# 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	<div></div>	
Controls testing	<div></div>	
Substantive testing	<div></div>	
Financial reporting	<div></div>	<ul style="list-style-type: none"><li>• Council to approve the financial statements and representation letter</li><li>• Completion of subsequent event procedures</li><li>• Completion of internal quality procedures</li><li>• Review of other information to be provided with the financial statements (annual report)</li></ul>
Regulatory matters	<div></div>	<ul style="list-style-type: none"><li>• Supervisor reporting to be completed</li></ul>

Scope legend	<div></div> Several audit procedures are outstanding.	<div></div> 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.	<div></div> Audit work is complete.
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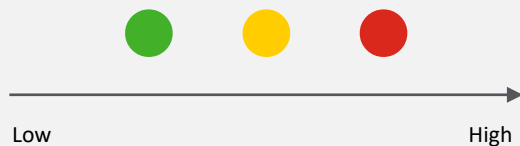


## 2B. Areas of audit focus – dashboard

The following areas of audit focus are consistent with the areas identified in our planning report except for the following; Impacts of Coronavirus (COVID-19) was subsequently deemed to not be a key area of focus, Revenue Recognition and Valuation of Infrastructure assets were not deemed to be significant risks and the level of management judgement required in the valuation of infrastructure assets is deemed to be medium and not high. Findings in respect of the control environment are included in Section 2C.

Area of audit focus	Significant risk	Fraud risk	Level of management judgement required	Findings
Revenue Recognition	✗	✗	●	✓
Management's ability to override controls	✓	✓	●	✓
Valuation of infrastructure assets and investment properties	✓	✗	●	🔍
Government reviews and proposals	✗	✗	●	✓
Public sector specific procedures	✗	✗	●	🔍
Statement of Service Performance	✗	✗	●	✓

### Level of management judgement required



### Findings



Completed, no issues noted



Completed, insights identified



Completed, significant findings identified





# 2B. Areas of audit focus

Area of audit focus	Our approach	Audit findings
<p><b>Revenue Recognition</b></p> <p>ISA (NZ) 240 The auditor’s responsibility to consider fraud in an audit of financial statements requires us to presume there are risks of fraud in revenue recognition and this is, therefore, a focus area for the audit.</p> <p>The Council has various revenue streams which need to be considered separately to ensure they are in-line with PBE Standards.</p> <p>As part of planning procedures, the significant risk of misstatement due to fraudulent financial reporting relating to revenue recognition has been rebutted for the group.</p> <p>This has been reflected in the audit procedures performed.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• Understood, evaluated and tested the relevant controls that address the risks of revenue recognition;</li><li>• Assessed the quality of information produced from the IT system and ensured accuracy and completeness of reports that are used to recognise revenue;</li><li>• Completed analytical procedures by developing expectations based on our knowledge of the industry , market data and key performance measures; and</li><li>• Assessed the impact of any changes to revenue recognition policies.</li></ul>	<p>In testing management’s provision for doubtful debt relating to overdue rates we note that management assumptions regarding the collection rates are not fully reflective of the actual collection and recovery rates when compared to historical actual recovery rates.</p> <p>We performed a calculation based on actual collection and recovery rates to estimate the difference in the provision. Based on this estimate we raised a judgmental unadjusted difference of \$1.5m.</p>



## 2B. Areas of audit focus

Area of audit focus	Our approach	Audit findings
<b>Management override of controls</b>  ISA (NZ) 240 The auditor's responsibility to consider fraud in an audit of financial statements requires us to presume there are risks 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.	We have: <ul style="list-style-type: none"><li>• Understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements;</li><li>• Tested the appropriateness of a sample of journal entries and adjustments and made enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments;</li><li>• Tested the design and implementation of controls around the monitoring of monthly reporting including budget to actual variances and balance sheet reconciliations;</li><li>• Reviewed significant accounting estimates for biases that could result in material misstatement due to fraud, including assessing whether the judgements and decisions made, even if individually reasonable, indicate a possible bias on the part of management;</li><li>• Performed a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements; and</li><li>• Obtained an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment.</li></ul>	As part of our audit, we have not identified instances of management override of controls.



## 2B. Areas of audit focus

Area of audit focus	Our approach	Audit findings
<p><b>Valuation of Infrastructure assets and investment properties</b></p> <p>The Council and Group has a significant asset base with certain operational assets and investment properties carried at fair value.</p> <p>The valuation of assets can be a complicated process and Management and Council need to ensure that a robust review of the valuation process is performed irrespective of the valuation being performed in-house or by an independent expert.</p> <p>For asset classes carried at fair value (3 waters assets, roading assets, storm and waste assets, heritage assets and investment properties) and revalued in the current year, the Group engaged independent experts to perform the valuations.</p> <p>The valuation exercise resulted in an upward revaluation adjustment of \$194.1 million in relation to property, plant and equipment and \$15.2m for investment properties for the year ended 30 June 2022.</p>	<p>For infrastructural assets and investment properties carried at fair value and revalued in the current year, we have:</p> <ul style="list-style-type: none"><li>• Obtained the valuation report issued by independent valuer for Obtained representation directly from the independent valuer confirming their methodology;</li><li>• Reviewed the key underlying assumptions used to ensure these assumptions are reasonable and in line with Public Benefit Entity International Public Sector Accounting Standards (“PBE IPSAS”); and</li><li>• Ensured the revaluation is correctly accounted for and disclosed in the financial statements in order to comply with PBE IPSAS.</li></ul>	<p>From our analysis, we have not identified any significant issues in relation to the valuations or fair value assessments performed.</p> <p>We have also raised control observation regarding the timeliness of the update to the asset register.</p>



# 2B. Areas of audit focus

Area of audit focus	Our approach	Audit findings
<b>Government reviews and proposals</b>  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.  <b>Three waters reform</b>  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.	<p>As part of our audit process we;</p> <ul style="list-style-type: none"><li>- Continued to follow up and discuss with management on the impact of these initiatives to the Group, where necessary, will consider them within our audit approach; and</li><li>- Maintained close communication with the Office of the Auditor-General ('OAG') if there are any other areas that requires further consideration.</li></ul> <p>We also draw to your attention that, the OAG has assessed that the 2021/22 audit opinions for Councils impacted by three waters reform must include an emphasis of matter paragraph with the following wording:</p> <p><b>Emphasis of matter - The Government's three waters reform programme</b></p> <p>"Without modifying our opinion, we draw attention to note [x] on page [x], which outlines that, Note [x] on page [x] outlines that the Water Services Entities Act 2022 received royal assent on 14 December 2022. The Act establishes four publicly owned water services entities to take over responsibilities for three waters service delivery and infrastructure from local authorities from 1 July 2024, or earlier by Order in Council. In December 2022, the Government introduced two additional water services Bills, one of which will enable the transfer of three waters related assets and liabilities to the water services entities. Until the Bills receive royal assent, the financial impact of the transfer on the Far North District Council remains uncertain"</p>	<p>We have included the emphasis of matter paragraph in our audit report. No other matters were noted.</p>



## 2B. Areas of audit focus

Area of audit focus	Our approach	Audit findings
<p><b>Public sector specific procedures</b></p> <p>A number of good practice guides are made available by the OAG on its website, with recently published guides relating to:</p> <ul style="list-style-type: none"><li>• Managing sensitive expenditure</li><li>• Managing conflicts of interest; and</li><li>• Severance payments</li></ul> <p>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.</p> <p>This includes expenses to have a 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.</p> <p>A copy of these guides are accessible here: <a href="https://oag.parliament.nz/good-practice/good-practice-guides">https://oag.parliament.nz/good-practice/good-practice-guides</a></p>	<p>During the course of the audit we:</p> <ul style="list-style-type: none"><li>• Enquired whether the Council have reviewed the sensitive expenditure policy against the OAG good practice guide and update where appropriate.</li><li>• Remained alert to issues and risks related to effectiveness and efficiency, waste and a lack of probity or financial prudence;</li><li>• Tested a sample of items of sensitive expenditure against the OAG's guidelines for probity, performance and waste;</li><li>• Inquired with management as to how the Council is comfortable that its employees know how to identify, disclose and manage a conflict of interest;</li><li>• Inquired with management if there is any severance payment and perform testing where appropriate.</li></ul>	<p>As part of our audit, we identified an internal control observation in relation to the managing of conflicts of interest.</p>



## 2B. Areas of audit focus

Area of audit focus	Our approach	Audit findings
<p><b>Statement of Service Performance</b></p> <p>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.</p> <p>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.</p> <p>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).</p> <p>There were changes to the standard of auditing the Statement of Service Performance in the current period.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• Reviewed the Council's SSP against legislative requirements and good practice. This will include checking consistency with the performance framework included in the 2021-2031 LTP;</li><li>• Audited a sample of the reported performance measures, with a focus on the more significant groups of activities;</li><li>• Reviewed the narrative commentary and explanatory information provided in the annual report to ensure that this provides sufficient information to the readers i.e. "tells the performance story".</li></ul>	<p>We have not identified any material issues from our testing of these performance measures.</p>



## 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 Group, 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. However, we did note some observations and these are discussed on the following pages. Several of the matters noted we are required to include in our reporting to the OAG.

In the current year, we opted not to take a control reliance approach for general computer related controls. We have involved IT specialists to perform an overall update of understanding of the IT environment.

### Prior period recommendations

For reference purposes we include in Appendix 1 a summary of the audit findings and recommendations raised by the previous auditor in the prior year.



## 2C. Internal control findings (contd.)

Matter	Observation	Deloitte recommendation	Management's response
1	<p><b>Capitalisation of property, plant and equipment</b></p> <p>A number of assets are not being capitalised in a timely manner after completion of the actual project.</p> <p>This apparently is caused by a lack of timely communication from the project managers to the finance team upon project completion.</p>	<p>We recommend the Council adopt procedures to ensure that assets that are available for use are capitalised in a timely manner.</p>	<p>Noted, this is an issue that Council will address moving forward.</p>
2	<p><b>Delegated authorities</b></p> <p>Deloitte noted that for invoices without purchase orders the Accounts Payable officer has delegated authority to process invoices up to \$5,000. Our testing identified however that the Accounts Payable officer is able to, and has, processed invoices with no purchases orders up to the value of \$100,000.</p>	<p>Delegated authorities within the accounting system should be set in line with approved delegated authority policies.</p>	<p>Whilst AP officers have the delegation to process invoices without a PO up to \$5,000 they do not process any such invoices and send them to the Manager Transaction Services to process. However AP officers do have the delegation to process invoices with a PO up to \$100,000.</p>





## 2C. Internal control findings (contd.)

Matter	Observation	Deloitte recommendation	Management's response
3	<p><b>Mileage claims – non-taxable allowances</b></p> <p>Certain council employees receive a non-taxable allowance for travel between home and office under certain provisions of the Income Tax Act. We note however that the allowance is setup in the payroll system in such that the employee only receives the benefit of the tax impact of the allowance rather than the full amount of the allowance they claim. This is might be acceptable from a tax perspective providing the employment agreements make it clear that employees are entitled to a total remuneration package which is inclusive of any non-taxable allowances. Where this is not the case this treatment may not be effective from a tax perspective and could result in a shortfall of PAYE, Kiwisaver, and holiday pay for each individual.</p>	<p>We recommend council investigate this matter and seek appropriate advice on the tax and payroll treatment of these allowances to ensure the amounts are in compliance with the employee agreements and meet the various employment and tax legislative requirements.</p>	<p>The impact of the “travel allowance” should only be the tax impact. This is not a paid allowance or a salary sacrifice. This is a tax adjustment to allow for the fact that staff have no access to public transport.</p>



## 2C. Internal control findings (contd.)

Ma tter	Observation	Deloitte recommendation	Management's response
4	<b>Audit trail – vested assets</b>		
	Our testing of vested assets noted a number of instances where supporting evidence of ownership following completion or transfer of vested assets could not be provided.	Management should upon transfer / completion of vested assets obtain and review all supporting documents from all parties (e.g. such agreements / correspondence ) to ensure the transactions are captured in a timely manner in line with the arrangements.	Noted, this is an issue that Council will address moving forward.
5	<b>Provision for doubtful debts</b>		
	Management's provisioning policy for overdue rates does not reflect actual collection and recovery amounts which could lead to an over/under provision that may become material	We recommend management review actual collection and recoveries and revise the provisioning policy accordingly to ensure the provision for doubtful debts remain an accurate reflection of the likelihood of recovery.	Noted – current calculations are based on current collection percentages and reflect the demographic of our area. However the introduction of IPSAS41 into 2022/23 will enable a full review to be conducted.
6	<b>Timing of recognition of Kaikohe Water Company</b>		
	Council subscribed for shares in Kaikohe Water Company Limited. The subscription agreement is also dependent on Council entering into a water supply agreement with Te Tai Tokerau Trust. Both the agreements were executed after 30 June 2022 however Council recognised the shares as an intangible asset and a corresponding liability in the financial statements at 30 June 2022. Under the accounting standards neither the asset nor the liability met the recognition criteria at 30 June 2022.	We recommend management carry out a sufficiently detailed review of the recognition and measurement requirement under IPSAS and seek advice where necessary when entering into such transactions in order to ensure compliance with the relevant accounting standards.	Noted – we will seek external advice.



## 2C. Internal control findings (contd.)

Ma tter	Observation	Deloitte recommendation	Management's response
7	<b>Conflict of interest register</b>		
	<p>We note the observations raised by the previous auditors in 2021 and prior years in relation to council's conflicts of interest register. As part of our audit testing we obtained a copy of the SharePoint records for conflicts of interest declarations and noted that according to the record, the CEO has not completed a conflict of interest declaration in line with Council policy. We also noted a number of employees who's declarations are noted as "DRAFT" in the system.</p>	<p>Conflicts of interest should be proactively managed and all new employees should completed and finalise a declaration in line with policy as a priority upon joining.</p>	<p>Noted, this work is ongoing and has been added to the onboarding process. Since balance sheet date, the CEO has resigned.</p>



## 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.

Unadjusted misstatements identified	Assets Dr/(Cr) (\$'000)	Liabilities Dr/(Cr) (\$'000)	Equity Dr/(Cr) (\$'000)	Profit or loss Dr/(Cr) (\$'000)	If applicable, control deficiency identified
<b>Current year:</b>					
Under-provision for overdue rates (judgmental difference)	(1,500)			1,500	5
Kaikohe Water Company – asset not meeting recognition criteria	(1,200)	1,200			6
<b>Prior year</b>					
No prior year errors impact current year					
<b>Total</b>	<b>(2,700)</b>	<b>1,200</b>		<b>1,500</b>	

Note: Immaterial balance sheet and income statement reclassifications have not been included in the summary of unadjusted differences



## 2E. Summary of adjusted differences

The following differences were identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

Differences identified and adjusted	Assets Dr/(Cr) (\$'000)	Liabilities Dr/(Cr) (\$'000)	Equity Dr/(Cr) (\$'000)	Profit or loss Dr/(Cr) (\$'000)	If applicable, control deficiency identified
Current year:					
Under-provision for general rates	(2,934)			2,934	5
GST incorrectly classified	1,932	(1,932)			
Debtor write-off incorrectly accounted for as asset	(4,335)			4,335	5
Duplication of Revenue from vested assets	(3,763)			3,763	
Correction of consolidation adjustment – government grants in advance	(5,320)	5,320			
Correction of consolidation entry – prior year subsidies and grants			(13,472)	13,472	
<b>Total</b>	<b>(14,420)</b>	<b>3,388</b>	<b>(13,472)</b>	<b>24,505</b>	

Note: Immaterial balance sheet and income statement reclassifications have not been included in the summary of unadjusted differences



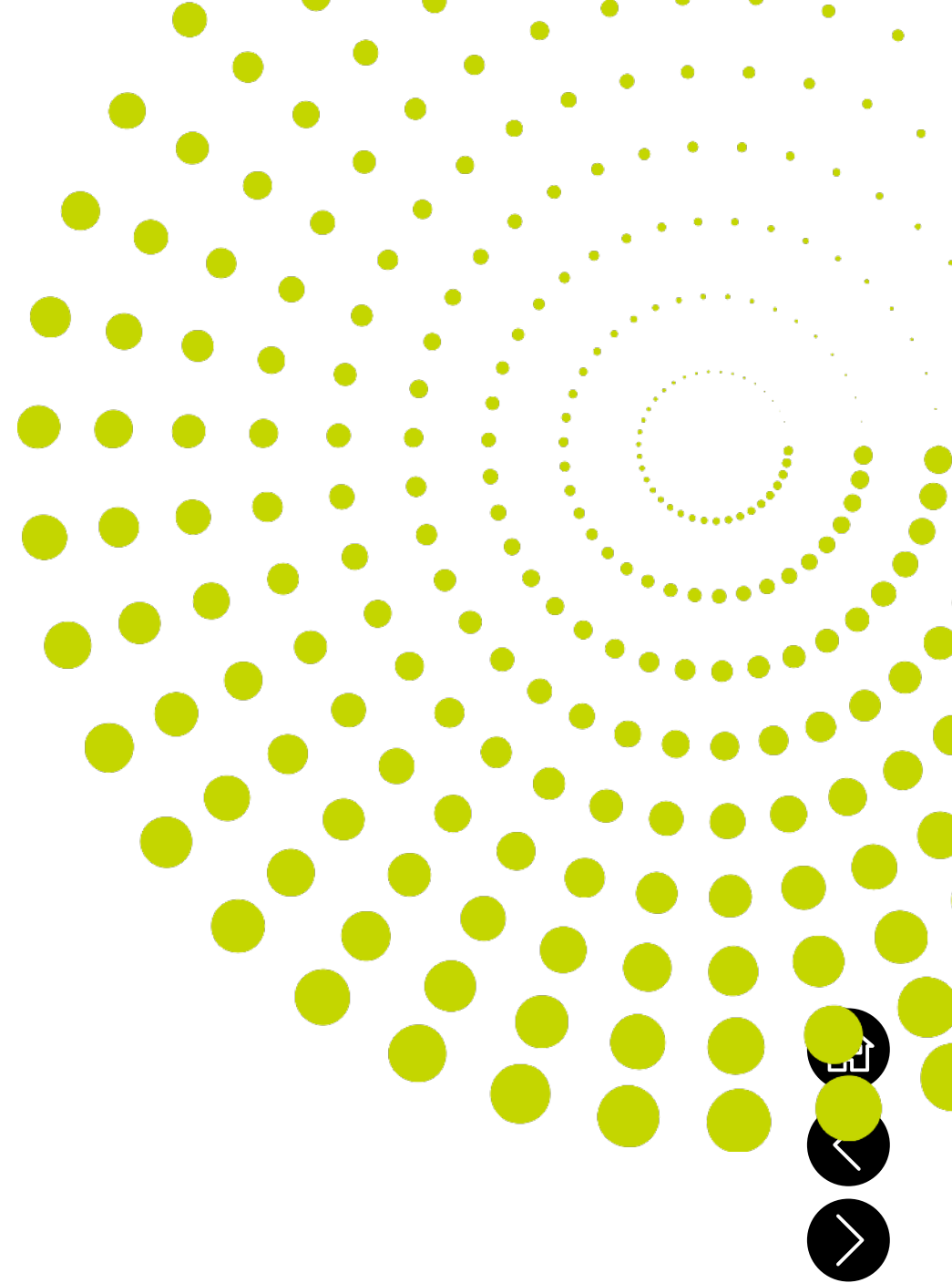
## 2F. Summary of omitted disclosures

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	Amount (where applicable)	Management’s response
None			



### 3. Other reporting matters



# 3A. Independence and fees

We summarise below our proposed audit fees that have been agreed with the OAG prior our appointment.

	CY (\$'000)
Fees payable for the audit of the Group financial statements (excluding disbursements)	187
<b>Total audit fees for financial statements</b>	<b>187</b>
Other assurance services	
- Trustee Reporting	5
<b>Total audit related and other assurance fees</b>	<b>192</b>





## 3B. Other communications

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

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### 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 Group's accounting practices, including judgements about accounting policies, accounting estimates and financial statement disclosures that need to be communicated to the Committee. We did identify a number of issues during our audit which required additional audit effort and resulted in audit differences that required correction as mentioned throughout this report.

Far North District Council and Far North Holdings Limited report under different accounting standards. Far North Holdings is a significant component of the group. During our testing of the consolidation entries we identified a number of errors that required correction as noted above. We recommend closer collaboration between the finance teams of both entities to ensure accurate and timely flow of information to streamline the consolidation process.

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### 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 Committee.

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### Written representation

A copy of the representation letter to be signed on behalf of the Council will be circulated separately.

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### Specialists

We involved our IT specialists to assist us with our understanding of the IT environment and we involved tax specialists to assist where considered necessary.

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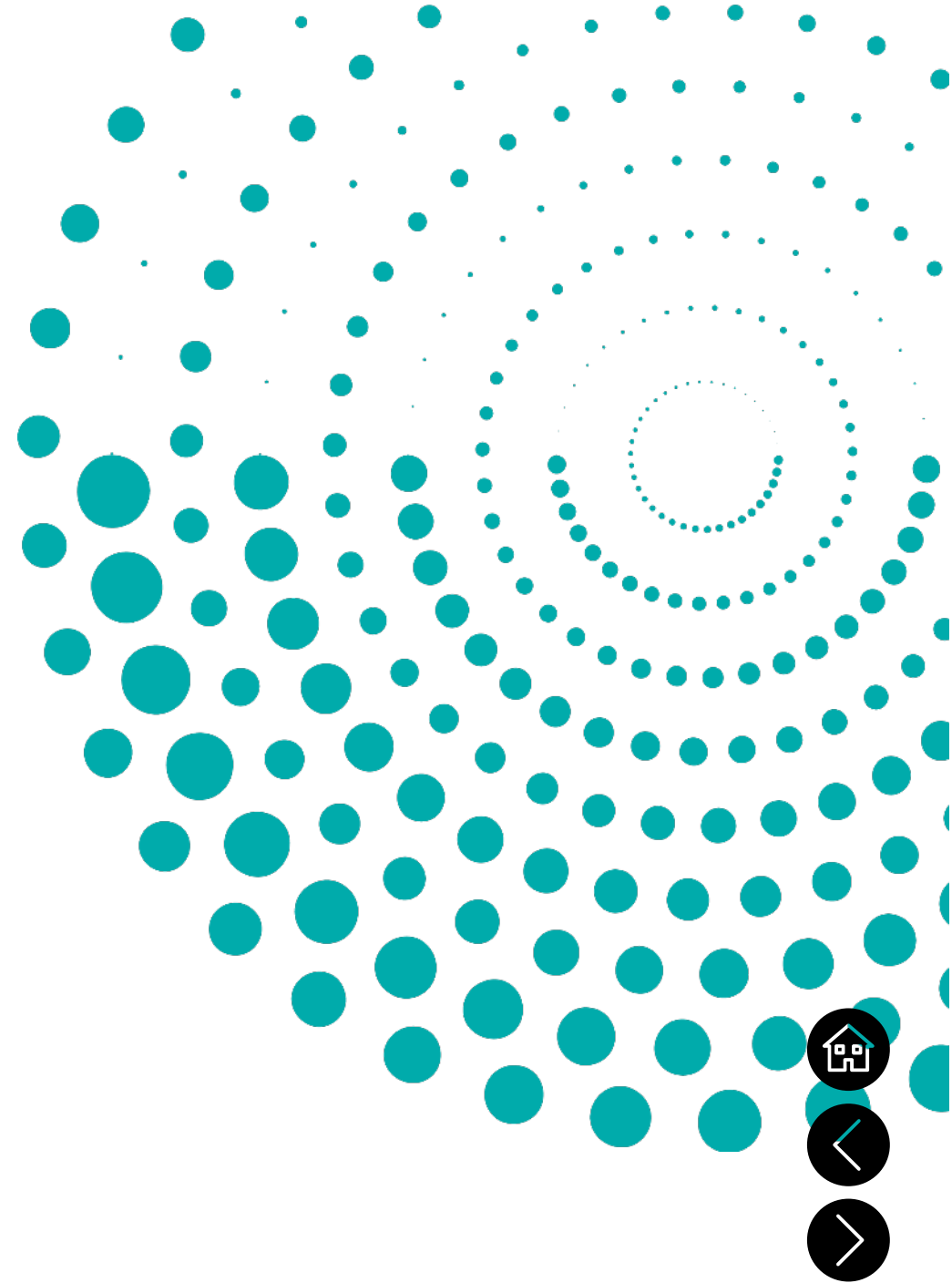
### Other information

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.

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## 4. Financial reporting and other developments



# 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 Group. 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?icid=top\\_accounting-alert](https://www2.deloitte.com/nz/en/pages/audit/articles/accounting-alert.html?icid=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

\*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

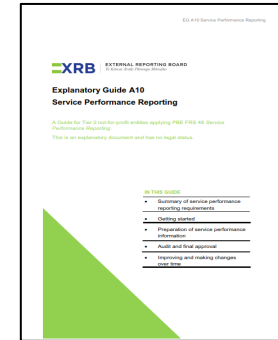
Determine the impact on covenants & regulatory capital requirements, tax, dividends & employee incentive schemes



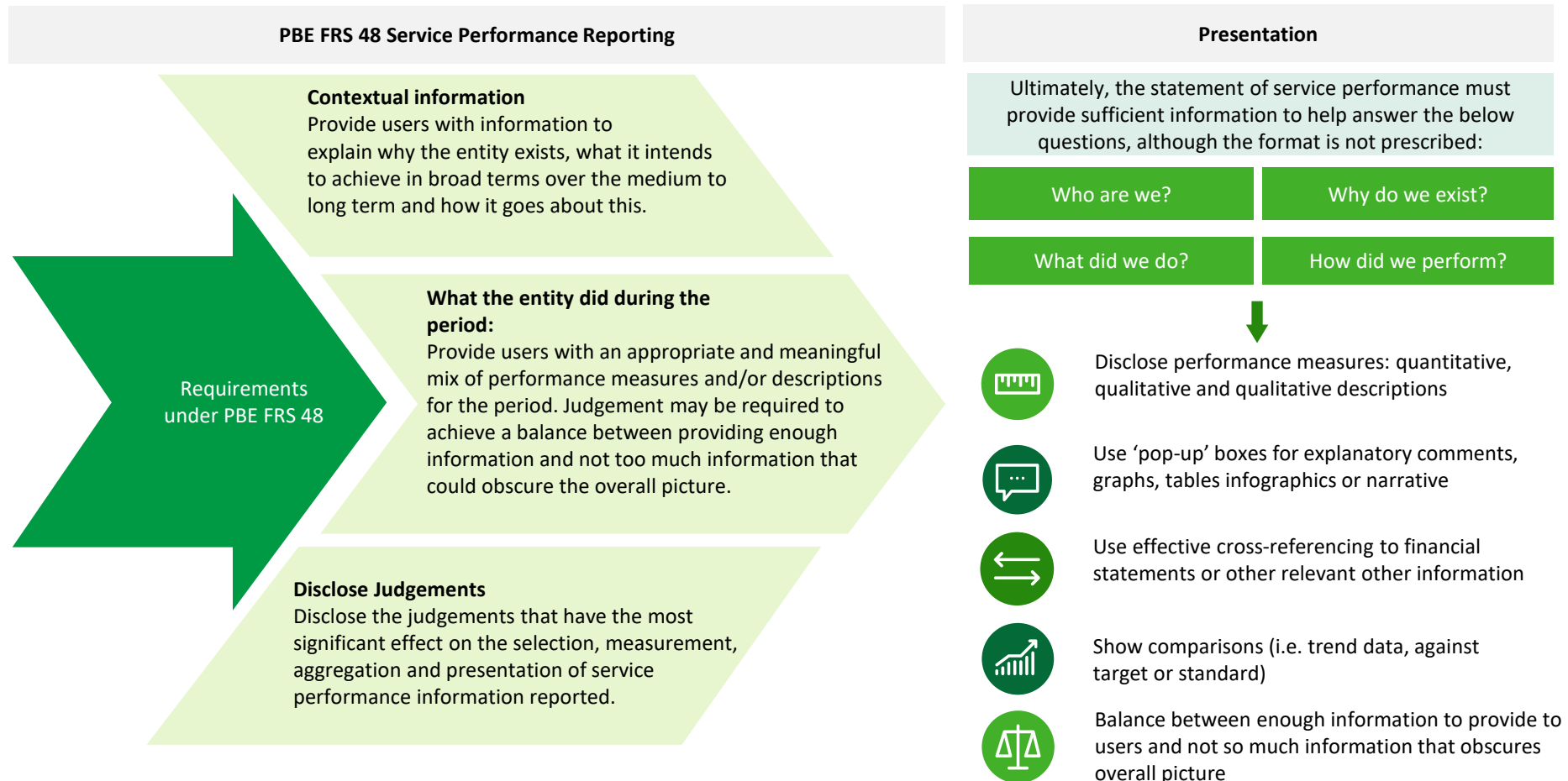
## Developments in financial reporting – PBE FRS 48 *Service Performance Reporting*

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



# Developments in financial reporting – PBE IPSAS 41 Financial Instruments

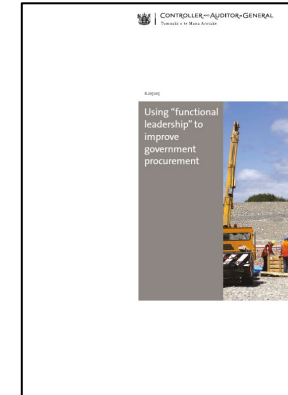
Amendments compared to PBE IPSAS 29	
Recognition, derecognition, scope & amortised cost measurement	None
Classification and measurement of financial assets	<ul style="list-style-type: none"> <li>debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in certain cases)</li> <li>debt instruments held within a business model whose objective is achieved by both collecting the contractual cash flows and by selling financial assets are measured at fair value through other comprehensive income (FVTOCI)</li> <li>all equity investments are measured at fair value through profit or loss (including unquoted equity investments) except that if an equity instrument is not held for trading, an election can be made to measure it at FVTOCI</li> <li>all other instruments (including all derivatives) are measured at fair value through profit or loss</li> </ul>
Classification and measurement of financial liabilities	<ul style="list-style-type: none"> <li>changes in credit risk on liabilities designated as at fair value through profit or loss are recognised in other comprehensive income, unless they create or increase an accounting mismatch, and are not recycled to profit or loss</li> </ul>
Embedded derivatives	<ul style="list-style-type: none"> <li>bifurcation of embedded derivatives needs to be assessed for hybrid contracts containing a host that is a financial liability or a host that is not an asset within the scope of PBE IPSAS 41 (hybrid contracts with a financial asset as a host contract are classified in their entirety based on the contractual cash flow characteristics criterion)</li> </ul>
Impairment	<ul style="list-style-type: none"> <li>change to expected loss model whereby it is no longer necessary for a credit event to have occurred before credit losses are recognised</li> </ul>
Hedge Accounting (HA)	<ul style="list-style-type: none"> <li>a broadening of the risks eligible for hedge accounting</li> <li>changes in the way forward contracts and derivative options are accounted for when in a hedge accounting relationship, which reduces profit or loss volatility</li> <li>the effectiveness test has been replaced with the principle of an “economic relationship”</li> <li>enhanced disclosures regarding an entity’s risk management activities</li> </ul>



# Using “functional leadership” to improve government procurement

*From the work performed by the OAG, it was found that many public organisations have difficulty bringing together the financial and contract management information. Being able to do this would make it easier for the organisations to assess value for money.*

The OAG has published a report, ‘Using “functional leadership” to improve government procurement’, to present their findings and recommendations. The full report is accessible [here](#).



The summary includes some questions that executive leaders should ask in order to ensure that they have a comprehensive understanding of the organisation’s procurement spending.

The summary is accessible [here](#).

The questions to consider include:

- What are we buying?
- Who are we buying from?
- Is all buying going through all-of-government contracts when it should be?
- Who is buying?
- How often do we buy?
- When did we buy?
- How much did we pay?
- Are we getting what we had been promised?
- What location were the items delivered to?
- How does the data compare to previous years?

The aim should be for senior leaders to:

- Be confident that procurement is helping achieve the strategic outcomes;
- Have easy access to good quality procurement spending data which is regularly analysed to improve cost-effectiveness;
- For all-of-government contracts, be confident that all spending is going through those contracts.



# 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”

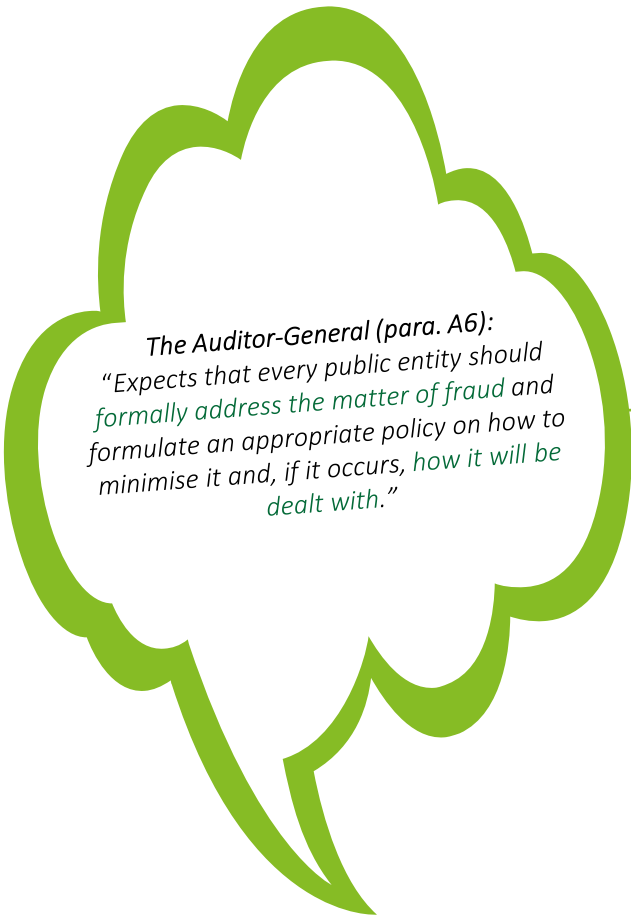


# Our response to AG ISA (NZ) 240 Fraud: An independent approach

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.





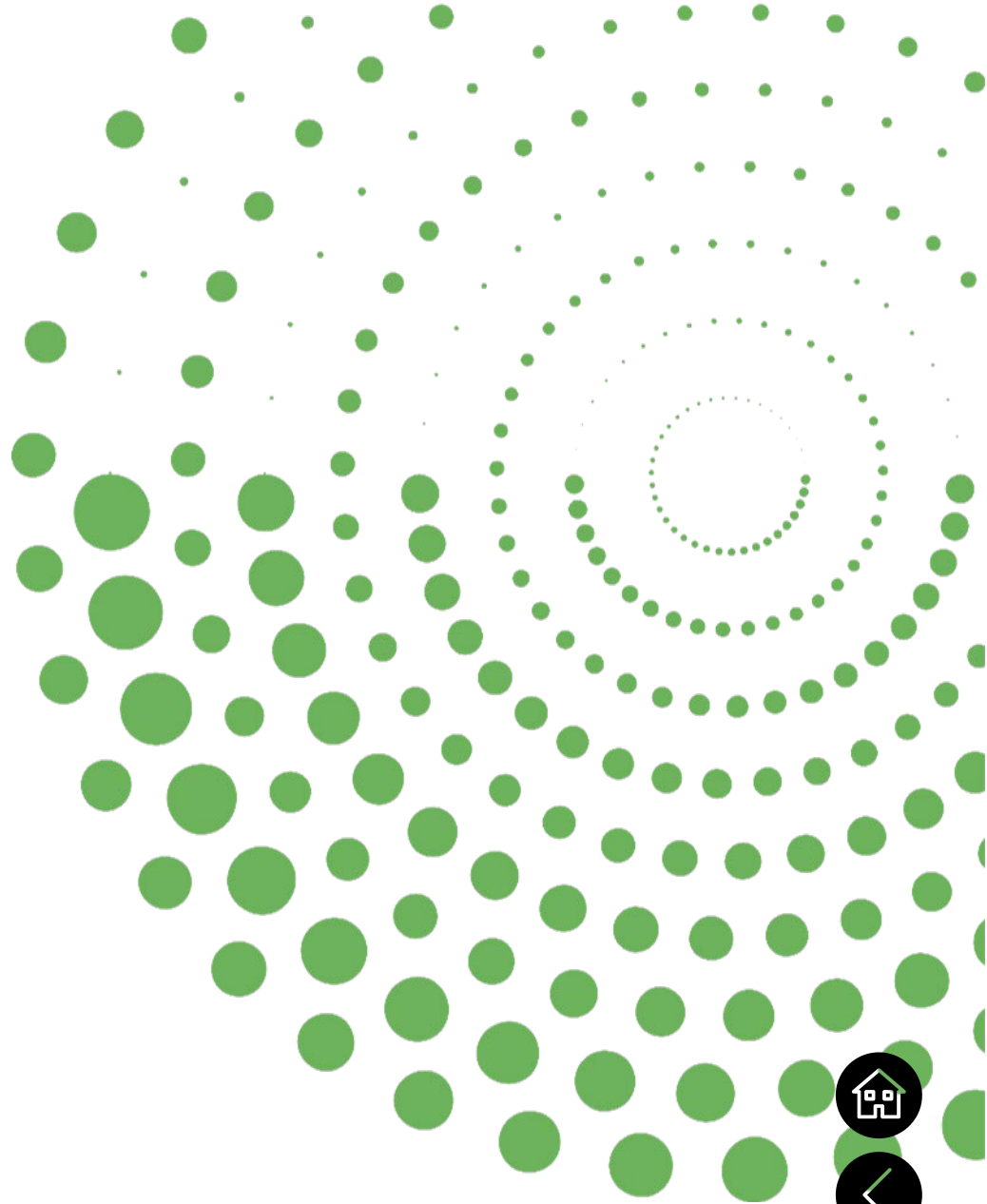
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# Appendix 1 – Prior year audit management letter



# **Report to the Council on the audit of**

**Far North District Council**

For the year ended 30 June 2021

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## Key messages

We have completed the audit for the year ended 30 June 2021. This report sets out our findings from the audit and draws attention to areas where the Far North District Council (the Council) is doing well and where we have made recommendations for improvement.

### Audit opinion

We issued our audit report on 16 December 2021. Our report included an unmodified opinion on the financial statements and statement of service provision. This means we were satisfied that these statements present fairly the Council's activities for the year and its financial position at the end of the year.

Without modifying our audit opinion, we included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements relating to the Government's three waters reform programme announcement.

### Matters identified during the audit

This reporting round continued to be impacted by the Covid-19 pandemic. As part of this we considered the overall impact that Covid-19 may have had on the valuation of investment property and Property, Plant and Equipment that are subject to revaluation. Through our discussions with management, the external valuer and the work we performed we were able to conclude that the value of these assets has been fairly stated in this year's financial statements.

We have made a small number of new recommendations where we consider aspects of financial reporting could be improved. These are summarised in section 1.1.

There also continues to be a number of outstanding recommendations, some dating back to before 2016 that need to be addressed and closed. We will continue to monitor progress against these and urge the Council to ensure that progress is made on these matters. Refer to Appendix 1 for further details. All recommendations will be followed up during our audit for the year ended 30 June 2022.

### Thank you

We would like to thank the Council, management and staff for their assistance during the audit and for their patience while the final stages of the audit were completed.

We also commend the Council for being able to accommodate the final audit during the different stages of Covid-19 restrictions.



David Walker  
Appointed Auditor  
10 May 2022

# 1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommendations.

Priority	Explanation
Urgent	<p><b>Needs to be addressed <i>urgently</i></b></p> <p>These recommendations relate to a significant deficiency that exposes the Council to significant risk or for any other reason need to be addressed without delay.</p>
Necessary	<p><b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b></p> <p>These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.</p>
Beneficial	<p><b>Address, <i>generally within six to 12 months</i></b></p> <p>These recommendations relate to areas where the Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.</p>

## 1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p><b>Capitalisation of property, plant and equipment</b></p> <p>We recommend the Council adopt procedures to ensure that assets that are available for use are capitalised in a timely manner.</p>	5.1.1	Necessary
<p><b>Fair value assessment for assets - non-revaluation year</b></p> <p>We recommend that management should prepare a fair value assessment which considers the experts' reports for assets not revalued in that particular year.</p>	5.1.2	Necessary
<p><b>Delegation of Authority</b></p> <p>We recommend that the Council ensures that the approval limit in the TechOne system is consistent with the approved Delegated Financial Authority.</p>	5.3	Necessary

## 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous years' recommendations. Appendix 1 sets out the status of previous year's recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	0	11	4	15
Implemented or closed	0	3	0	3
<b>Total</b>	<b>0</b>	<b>14</b>	<b>4</b>	<b>18</b>

## 2 Our audit report

### 2.1 We issued an unmodified audit report



We issued an unmodified audit report on 16 December 2021. This means we were satisfied that the financial statements and statement of service provision present fairly the Council's activity for the year and its financial position at the end of the year.

Without modifying our audit opinion, we included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements relating to the Government's three waters reform programme announcement.

### 2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. All significant misstatements identified during the audit have been corrected, other than the items below.

Current year uncorrected misstatements	Ref.	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Revenue	1				554,162
Retained Earnings				(554,162)	
PPE – Roading	2	1,726,934			
PPE – Water		95,223			
PPE – Wastewater		428,547			
PPE - Community facilities		319,350			
Capital WIP		(2,570,054)			
<b>Total group</b>		<b>0</b>	<b>0</b>	<b>(554,162)</b>	<b>554,162</b>

#### Explanation of uncorrected misstatements

- 1 In the prior year due to Covid-19 Level 4 lockdown, water meters could not be read for Kaikohe and they were not billed on their water consumption during the lockdown period. The unbilled water consumption for Kaikohe had not been accrued for, and therefore, the accrued revenue was estimated to be understated by \$554,162. The consequence of the prior year accrual not being accrued for means the current financial year's revenue is overstated.



- 2 Capital projects that appeared to have been completed and are in a state that they can be used as intended. Asset information documentation was outstanding at year-end. Even though the Capital work-in-progress is within the Property, Plant and Equipment total, the Capital work-in-progress is therefore the account balance that is overstated.

### 2.3 Uncorrected disclosure deficiencies

Detail of disclosure deficiency
The roading commitments subsidy should be \$18,730k. This results in a \$280k disclosure uncorrected difference in the narrative to Note 25: Capital commitments.

### 2.4 Corrected disclosure deficiencies and performance reporting misstatements

We also identified misstatements that were corrected by management. The corrected misstatements are listed in Appendix 2.

### 2.5 Quality and timeliness of information provided for audit



Management provided information for audit relating to the Annual Report of Far North District Council. This includes the draft Annual Report with supporting working papers. We provided a listing of information we required to management through AuditDashboard prior to the start of the final audit and during the audit, which included the dates we required the information to be provided to us.

We continue to see improvements in the quality and timeliness of information provided to us in support of the financial statements. Although there were some delays, we appreciated the effort taken by management to provide this information to us.

The quality of the draft statement of service provision provided is an area of concern. We noted a number of deficiencies in the reported performance. Refer to section 5.2 and Appendix 2 for further details.

### 3 Assessment of internal control



The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the statement of service provision. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

#### 3.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. Management, with the oversight of the Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

We consider that a culture of honesty and ethical behaviour has been created. The elements of the control environment provide an appropriate foundation for other components of internal control.

#### 3.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and statement of service provision, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the Council and management, but the ultimate responsibility for the effective design, implementation and maintenance of internal control rests with the Council.

We reviewed the expenditure, payroll, revenue, fixed assets, general ledger reconciliations, journals and key performance measure systems. We also identified controls and completed walkthroughs to ensure the systems are operating as described.

It is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control. Refer to section 5 and Appendix 1 for matters noted where internal controls can be improved.

## 4 Matters raised in the Audit Plan



In our Audit Plan of 15 September 2021, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
<b>Revaluation of assets - revaluation year</b>	
<p>The Council periodically revalues its assets.</p> <p>Assets being revalued in the year ended 30 June 2021 are:</p> <ul style="list-style-type: none"> <li>• roading infrastructural assets (streetlights, pavements, walls, bridges);</li> <li>• stormwater infrastructural assets;</li> <li>• footpaths;</li> <li>• carparks;</li> <li>• refuse transfer stations and landfills;</li> <li>• land (except land under roads);</li> <li>• maritime facilities;</li> <li>• library books;</li> <li>• library buildings;</li> <li>• pensioner housing; and</li> <li>• community facilities infrastructural assets (halls, swimming pools, public toilets, cemeteries, camping grounds, park improvements).</li> </ul> <p>These assets are valued every 1 - 2 years.</p> <p>PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are conducted with sufficient regularity to ensure that the carrying amount value does not differ materially from fair value.</p> <p>Due to the judgemental nature of the revaluation there is a risk of bias or error in the assumptions and inputs used.</p>	<p>FNDC performed valuations in accordance with PBE IPSAS 17, <i>Property, Plant and Equipment</i>. We have:</p> <ul style="list-style-type: none"> <li>• obtained assurance that the valuation methodology complies with accounting standards, including the reasonableness of the assumptions and judgements made by the valuer and other inputs to the valuation;</li> <li>• assessed whether the fair value reasonably reflects the condition of assets (professional assistance was sought (valuers)) and therefore their remaining useful lives;</li> <li>• evaluated the qualifications, competence and expertise of the external valuer used;</li> <li>• assessed relevant controls that management has put in place for the valuation; and</li> <li>• ensured that the Council has correctly accounted for the revaluation in its financial statements and the assumptions and judgements relating to the valuation are adequately disclosed.</li> </ul> <p>Management have performed this year's valuations with an effective date ranging from May 2021 to June 2021. Impairment has been considered as part of the valuation process and through internal impairment enquiries raised with asset managers following the completion of the valuation process up to balance date.</p>

Audit risk/issue	Outcome
<p>Due to the nature and value of the revaluations any bias or errors in the inputs used or calculations performed could result in a material misstatement in the value of the asset classes being revalued.</p>	<p>The valuers had considered the impact of Covid-19 in completing the revaluation.</p> <p>We have obtained sufficient assurance that the fair value of land and buildings is not materially different to carrying value due to uncertainties resulting from the impact of Covid-19 pandemic.</p> <p>Refer to Appendix 1 for further details.</p>
<b>Fair value assessment for assets - non-revaluation year</b>	
<p>The Council periodically revalues its assets.</p> <p>Asset classes which are not being revalued in the year ended 30 June 2021 are:</p> <ul style="list-style-type: none"> <li>• water infrastructural assets;</li> <li>• wastewater infrastructural assets; and</li> <li>• roading assets - traffic services and road marking.</li> </ul> <p>PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are conducted with sufficient regularity to ensure that the carrying value does not differ materially from fair value. A revaluation is not scheduled for this year for these assets.</p> <p>For those assets that will not be revalued this year, we expect the Council to perform a comprehensive analysis to determine whether there is a significant variance between the fair value, as at 30 June 2021, and the carrying value that would trigger the need for the Council to revalue or impair its assets. The Council should agree on a significant variance threshold, above which Council would complete a revaluation.</p> <p>When considering whether fair value movements are significant, the Council must consider the movements both by individual asset class basis and in aggregate across all asset classes carried on a revaluation basis.</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>We have assessed whether any material fair value movements have taken place for assets not revalued for this year.</p> <p>We have considered Council's impairment assessment for assets carried at costs and confirmed that the conclusions reached by management appear reasonable.</p> <p>We are satisfied that the fair value of these assets is appropriate.</p>

Audit risk/issue	Outcome
<p>We encourage the Council to perform this assessment early so that if a revaluation is required, there is time to complete it without impacting on the annual report process.</p>	
<b>Impairment of property, plant and equipment (PPE)/investment property/intangible assets</b>	
<p>In accordance with PBE IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i> and PBE IPSAS 26 <i>Impairment of Cash-Generating Assets</i>, at each reporting date management must assess whether there is any indication that an asset may be impaired. If management identifies any indication of an impairment, then they must estimate the recoverable service amount of the asset.</p> <p>Due to the judgemental nature of the valuations used in assessing impairment there is a risk of bias or error in the assumptions and inputs used. Any bias or errors in the inputs used or calculations performed could result in a material misstatement in the carrying value of property plant and equipment/investment property/intangible assets and the related impairment expense.</p>	<p>External valuers conducted impairment reviews on non-revalued assets. We obtained and reviewed impairment reports and impairment test work carried out by the external valuers and we concluded that there are no impairment indicators. We also reviewed work in progress balances for signs of impairment and did not note any impairment indicators.</p> <p>We confirmed with management that they are not aware of any impairment indicators. Management should however be performing an assessment which considers the advice from their expert. Refer to section 5.1.2 for further details.</p> <p>The Council's investment property balance relates to its subsidiary Far North Holdings Limited (FNHL). We obtained clearance from the auditors of FNHL.</p>
<b>The risk of management override of internal controls</b>	
<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>As part of our audit we have:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of selected journal entries;</li> <li>• reviewed accounting estimates for indications of bias; and</li> <li>• evaluated any unusual or one-off transactions, including those with related parties.</li> </ul> <p>No issues were noted from the work performed.</p>

Audit risk/issue	Outcome
<b>Rates</b>	
<p>Rates are Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. The Council should ensure it has appropriate processes in place, including seeking legal advice where appropriate, to ensure compliance of its rates and rating processes with legislation.</p> <p>Further, sections 90A to 90D of the Local Government (Rating) Act 2002 were introduced this year giving effect to the Local Government (Rating of Whenua Māori) Amendment Act 2021.</p> <p>These sections provide powers to the local authority to:</p> <ul style="list-style-type: none"> <li>• write-off rates that cannot be recovered; and</li> <li>• write-off rates of deceased owners of Māori freehold land.</li> </ul> <p>The Act requires the amount of rates written off to be disclosed in the notes to the financial statements.</p>	<p>We are satisfied that the Council complies with aspects of the Local Government (Rating) Act 2002 (LGRA) that may have a material impact on the financial statements.</p> <p>The Local Government (Rating of Whenua Māori) Amendment Bill was enacted on 12 April 2021. Rates written off during the period was \$16,851k. A total of \$10,196k was written off as non-rateable Māori Freehold land at the year-end.</p> <p>Some of the changes are already in force, but the most substantive provisions do not come into force until 1 July 2021, giving the Council time to review their internal systems and implement any new processes that may be needed. The review and investigation on the remaining rate accounts is an ongoing process after the year-end and investigations are being carried out on the remaining rate accounts.</p> <p>We have obtained reasonable assurance that the write off is reasonable and complies with the new legislation.</p>
<b>Revaluation of investment property - Group</b>	
<p>Far North Holdings Limited (FNHL) is an important component of the Council's group accounts and holds a major Investment Property portfolio. The fair value of the Group's investment properties needs to be assessed annually in accordance with the requirements of PBE IPSAS 16, <i>Investment Property</i>, as the Council has adopted the fair value model for these assets.</p> <p>Given the volatility in the property market there is potential for large valuation movements year on year, which need to be accounted for within the Statement of Comprehensive Income.</p>	<p>We obtained clearance from the auditors of Far North Holding Limited. We performed work over the consolidation and are satisfied that investment property and related movements have been correctly accounted for in the group financial statements. We are also satisfied that the assumptions and judgements relating to the valuation are adequately disclosed.</p>

Audit risk/issue	Outcome
<p>Due to the nature and value of the revaluations, any bias or errors in the inputs used or calculations performed could result in a material misstatement in the value of the investment property.</p>	
<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 frameworks that are in place across the FNDC group and ensure appropriate adjustments are made in the group financial statements.</p>	<p>We have considered the financial information for all controlled entities and noted that FNHL was material to the group. The remaining entities were not material to the group financial statements.</p> <p>For controlled entities across the FNDC group applying different accounting frameworks, where material, we ensured that appropriate adjustments were made in the group financial statements as part of our work over the consolidation.</p> <p>No issues were identified.</p>
<b>Impact of three waters reform</b>	
<p>The three waters reform programme is one of the most significant policy programmes affecting local authorities. This is a three-year programme of work in three tranches.</p> <p>During 2020/21, the Council signed a non-binding Memorandum of Understanding (MOU) with Crown. By signing this MOU, the Council agreed to participate in the exploration of future service delivery options for the three waters services and to collaborate with agencies involved in the reform.</p> <p>On signing of the MOU, the Council subsequently received a share of \$761 million Crown stimulus funding, which was the first tranche of funding that was provided under the reform programme.</p> <p>It is important that the Council is appropriately accounting for this funding and is meeting the obligations of the funding agreement.</p>	<p>We are satisfied that accounting treatment of the three waters stimulus funding is in line with PBE accounting standards and the Council is meeting the obligations and reporting requirements as specified in the Funding Agreement. We are also satisfied the disclosure requirements of <i>PBE IPSAS 23 Revenue from Non-Exchange Transactions</i> has been applied.</p> <p>On 27 October 2021, the Local Government Minister announced that central government will proceed with the three waters service delivery reforms using a legislated "all in" approach. The three waters reform involves the creation of four statutory water services entities to be responsible for the service delivery and infrastructure from local authorities from 1 July 2024. There is still a number of uncertainties associated with the new three waters delivery.</p>

Audit risk/issue	Outcome
<p>Much of the policy is still to be developed, with significant announcements about the form of future water services entities expected in year 1 of the 2021-31 long-term plan (LTP) period (2021/22). The Council will then need to decide whether to opt out of the proposed new service delivery model. There is still considerable information to come as to what these reforms may mean for the Council before this decision will be made.</p> <p>We would expect the Council has taken steps to:</p> <ul style="list-style-type: none"> <li>Consider the implications of any government announcements about three waters reform up to the date of authorisation of the financial statements. This includes the impact on financial statements and disclosures, including subsequent events disclosures.</li> </ul> <p>Ensure any crown stimulus funding resulting from the three waters reform programme received by the Council has been appropriately accounted for in accordance with PBE accounting standards and the terms of the agreement.</p>	<p>Notwithstanding the current uncertainty the announcement once legislated will mean Council is no longer responsible for the delivery and infrastructure of three water services from 1 July 2024. Council continues to recognise its three waters assets at 30 June 2021 in accordance the accounting policies.</p> <p>It is expected central government will develop details around the mechanism for the transfer of the water assets and this will be completed prior to 1 July 2024.</p> <p>The Council included an appropriate subsequent event disclosure in their financial statements, which reflected the announcement made on 27 October 2021 and set out at a high-level what the impact is on the Council's operations. An emphasis of matter paragraph is included in the audit report to draw the readers' attention to the three waters reform disclosure.</p>
<b>Major capital projects</b>	
<p>The Council continues to have a significant ongoing capital programme.</p> <p>Accounting for capital projects, whether completed during the year or in progress at balance date, requires assumptions and judgements to be made that can have a significant impact on the financial statements. Management and the Council are responsible for managing the financial statement risks associated with capital projects. This includes ensuring:</p> <ul style="list-style-type: none"> <li>Project costs are reviewed to ensure these are appropriately classified as capital or operational in nature.</li> </ul>	<p>We noted \$34.9 million worth of capital budgets were deferred in 2020/21. Council reviews the deferred projects on a yearly basis and provides the reason for the deferrals. We noted the Council is making progress and is fully aware of any delays that are caused within or from outside the Council with further actions required to be taken.</p> <p>We reviewed management processes for accounting for costs incurred on capital projects:</p> <ul style="list-style-type: none"> <li>We are satisfied that capital project costs are appropriately classified as capital or operational in nature.</li> </ul>



Audit risk/issue	Outcome
<ul style="list-style-type: none"> <li>• Work in progress (WIP) balances for projects already completed or available for use are transferred to the appropriate class of asset in a timely manner and depreciated accordingly from the date of capitalisation.</li> <li>• WIP balances on projects that span an extended period of time are assessed regularly for impairment over the period of the project. Costs no longer meeting criteria for recognition as an asset should be expensed in a timely manner.</li> <li>• Asset components are identified at an appropriate level, and appropriate useful lives are assigned to these components on completion.</li> <li>• The value and remaining useful life (RUL) of existing assets remains appropriate given replacement projects underway.</li> <li>• Capital commitments related to contracts entered into before balance date are disclosed in the notes to the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• We are satisfied that the depreciation start date is consistent with the date of capitalisation. However, we noted that some assets were not capitalised in a timely manner. Refer to section 5.1.1 for further details.</li> <li>• We are satisfied that asset components are identified at an appropriate level, and appropriate useful lives are assigned to these components on completion. The value and remaining useful life of existing assets remains appropriate.</li> <li>• We are satisfied that capital commitments related to contracts entered into before balance date are disclosed in the notes to the financial statements.</li> </ul>
<b>Impact of Covid-19 pandemic</b>	
<p>The long-term impact of Covid-19 in New Zealand, and how it might affect public entities, is unknown. However, it is likely that the uncertainties in the economic environment will increase the risk of material misstatement in the financial statements. These effects might include uncertainties relating to revenue and asset valuations.</p> <p>Some local authorities have received funding from central government (such as “Shovel Ready” funding, or infrastructure recovery funding). It is important that the Council is appropriately accounting for this funding, taking account of any obligations of the funding agreements.</p>	<p>New Zealand continue to be impact by the Covid 19 pandemic during the 2020/21 financial year and post year-end.</p> <p>We obtained an understanding of the impact of Covid-19 on the Council’s operations, financial statements and performance story. The Covid-19 pandemic did not have a significant financial impact on the Council and group and on its ability to meet performance targets.</p> <p>We were satisfied that the main impacts of the pandemic were appropriately disclosed in the notes to the financial statements and in the statement of service provision.</p> <p>The Council included the impact of Covid-19 as part of subsequent events note disclosure.</p>

Audit risk/issue	Outcome
<p>We would expect the Council has taken steps to:</p> <ul style="list-style-type: none"> <li>• reconsider the risks that the Council faces;</li> <li>• reconfirm that reporting and internal control systems are in place and functioning effectively; and</li> <li>• ensure any “shovel ready” or infrastructure recovery” funding received by the Council has been appropriately accounted for in accordance with PBE accounting standards.</li> </ul>	

## 5 Matters identified during the audit



During the audit we identified the following matters not specifically identified as part of our planning.

### 5.1 Property, plant and equipment

#### 5.1.1 Capitalisation of property, plant and equipment

We noted that assets were not always capitalised in a timely manner. Retaining walls for which constructions were completed in the prior financial year were only capitalised in June 2021.

We also noted 69 capital projects worth \$2.57 million where no spend had been incurred in 2020/21. These assets have been disclosed in work in progress as the relevant signoffs from experts have not yet taken place. Depreciation of an asset begins when the asset is available for use and there is a risk that depreciation expense could be understated in the financial statements.

We recommend the Council adopt procedures to ensure that assets that are available for use are capitalised in a timely manner.

#### **Management comment**

*Staff are actively working on the process that sits behind the capitalisation of assets with a view to reducing the impact of WIP at year end. Any changes that need to be made may not be in place for the June 2022 audit but should be in place for the June 2023 audit.*

#### 5.1.2 Fair value assessment for assets - non-revaluation year

Where an asset class in a particular year is not revalued, management is required to complete a fair value assessment. We have noted that management did not provide a fair value assessment completed by themselves as they had placed reliance on their expert report. While we understand management's reliance on an expert, there may be information that management is aware of, but the valuers are not. It is for that reason the standards require management to complete a fair value assessment.

We recommend that management should prepare a fair value assessment which considers the experts' reports for assets not revalued in that particular year.

#### **Management comment**

*This is noted and agreed. Managers will be asked to review reports and advise of any material issues that may affect the impairment testing.*

## 5.2 Performance reporting control environment

We noted some weaknesses in the control environment over water supply and wastewater measures. The calculation and reporting processes are currently reliant on manual calculation and there are limited quality assurance controls in place. Data imported from the Request for Service (RFS) system gets manually copied over to an excel spreadsheet and calculation is formula driven throughout the workbook.

We noted the following matters:

- The formulas in the excel workbooks did not result in calculations that were consistent with Department of Internal Affairs (DIA) guidelines.
- Not all data has been captured. Data from digital submission forms updates the database, however, some staff were still only filling in manual timesheets that were not updated in the database.
- Inconsistencies between the Masterfile and the submission forms/timesheet. There are some instances that the received time is not consistent with the submission forms or timesheets. There are a few instances where the attended time and resolved time was not consistent with the submission forms or timesheets.
- The classification of the RFS type is incorrect. There was an instance that the RFS of power outage had been classified and included as Water supply - no water or low pressure.
- No record of submission or timesheet to support the RFS. There were three instances where there was no record of submission or timesheet to support the RFS.

Due to the matters noted above we performed additional work over these measures. All performance and disclosure misstatements identified during the audit were corrected. Refer to Appendix 2 for further details.

We continue to recommend that the Council establish appropriate controls around the performance reporting process for RFS-related performance measures to ensure the calculation methodology used complies with DIA guidance and that those results are fairly stated in the annual report.

### Management comment

*The calculations referred to above have been amended in the 21-22 calculations to meet the DIA Guidelines. Missing data is being addressed with new monitoring of RFS eg: Daily RFS report and focus by Operations Management which should minimise this occurrence.*

*The comment in relation to incorrect classification is incorrect. If a pump is run by electricity and there is an area outage, then this can cause no water or low water pressure to the system or even sewerage overflow etc.*

*It is important to note that over 4000 RFS are received and actioned per year and the comment above refers to 3 errors, which is not significant in terms of the reporting for that KPI.*

### **5.3 Delegations of Authority**

We performed a consistency check on the approval limit from the TechOne system to the approved Delegated Financial Authority and noted discrepancies in three positions.

We recommend that the Council ensures that the approval limit in the TechOne system is consistent with the approved Delegated Financial Authority.

#### **Management comment**

*A working group has been established to review the processes behind the financial delegation process with the aim being to link the DFA to the position in the HRP system.*

## 6 Public sector audit



The Council is accountable to their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the Council carrying out its activities effectively and efficiently;
- the Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

No issues were identified based on the work we performed as part of this year's audit.

## 7 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; and
- Northern Adventure Experience Limited.

We have not identified any of the following during our audit for the year ended 30 June 2021:

- Instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work.
- Limitations on the group audit.
- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

## 8 Useful publications



Based on our knowledge of the FNDC, we have included some publications that the Council and management may find useful.

Description	Where to find it
<b>Performance reporting</b>	
Public organisations are responsible for reporting their performance to Parliament and the public in a way that meaningfully reflects their organisation's aspirations and achievements. The Auditor-General published a discussion paper that explores five areas for improvement in performance reporting.	On the Office of the Auditor-General's website under publications.  Link: <a href="#">The problems, progress, and potential of performance reporting</a>
<b>Local government risk management practices</b>	
The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management.	On the Office of the Auditor-General's website under publications.  Link: <a href="#">Observations on local government risk management practices</a>
<b>Public accountability</b>	
Public accountability is about public organisations demonstrating to Parliament and the public their competence, reliability, and honesty in their use of public money and other public resources. This discussion paper explores how well New Zealand's public accountability system is working in practice.	On the Office of the Auditor-General's website under publications.  Link: <a href="#">Building a stronger public accountability system for New Zealanders</a>
<b>Setting and administering fees and levies for cost recovery</b>	
This good practice guide provides guidance on settings fees and levies to recover costs. It covers the principles that public organisations should consider when making any decisions on setting and administering fees and levies. It also sets out the matters public organisations should consider when calculating the costs of producing goods or providing services and setting charges to recover those costs.	On the Office of the Auditor-General's website under publications.  Link: <a href="#">Setting and administering fees and levies for cost recovery: Good practice guide</a>



Description	Where to find it
<b>Managing conflicts of interest involving council employees</b>	
This article discusses findings across four councils on how conflicts of interest of council employees, including the chief executive and staff, are managed.	On the Office of the Auditor-General's website under publications. Link: <a href="#">Getting it right: Managing conflicts of interest involving council employees</a>
<b>Establishing a new "public entity"</b>	
This document is for people making policy decisions about establishing a new public entity. It sets out questions to help you consider what accountability requirements a new public entity should have.	On the Office of the Auditor-General's website under publications. Link: <a href="#">Accountability requirements to consider when establishing a new "public entity"</a>
<b>Covid-19 implications for financial reporting and audit in the public sector</b>	
Audit New Zealand Executive Director Steve Walker and Head of Accounting Robert Cox joined an online panel hosted by Victoria University of Wellington and the External Reporting Board. They discuss the effects of Covid-19 and the economic recovery on financial reporting and audit in the public sector.	On our website under good practice. Link: <a href="#">Covid-19 page</a> Link: <a href="#">Webinar</a>
<b>Model financial statements</b>	
Our model financial statements reflect best practice we have seen. They are a resource to assist in improving financial reporting. This includes: <ul style="list-style-type: none"> <li>• significant accounting policies are alongside the notes to which they relate;</li> <li>• simplifying accounting policy language;</li> <li>• enhancing estimates and judgement disclosures; and</li> <li>• colour, contents pages and subheadings to assist the reader in navigating the financial statements.</li> </ul>	Link: <a href="#">Model Financial Statements</a>
<b>The Auditor-General's report on the results of recent audits</b>	
The OAG publishes a report on the results of the recent annual audits for the sector.	On the OAG's website under publications. Links: <a href="#">Local government 2019/20 audits</a>

Description	Where to find it
<b>Procurement</b>	
<p>The OAG are continuing their multi-year work programme on procurement.</p> <p>They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.</p> <p>Whilst this is focused on local government, many of the questions are relevant to all types of public sector entities.</p>	<p>On the OAG's website under publications.</p> <p>Links: <a href="#">Strategic suppliers: Understanding and managing the risks of service disruption</a></p> <p><a href="#">Getting the best from panels of suppliers</a></p> <p><a href="#">Local government procurement</a></p>

## Appendix 1: Status of previous recommendations

### Open recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<p><b>Compliance with PBE IPSAS 17 property, plant and equipment</b></p> <p>The Council needs to ensure the entire class of property, plant and equipment to which the asset, subject to revaluation, belongs is revalued to fully comply with PBE IPSAS 17.</p> <p>We also recommend that the Council review its disclosure to address these deficiencies identified in Property, plant and equipment note of the annual report.</p>	2020	<p><b>In progress</b></p> <p><b>Revaluing of PPE</b></p> <p>We noted that not all assets in the Roding asset class have been revalued this year. For example, Traffic Services and markings assets were not revalued as at 30 June 2021 as these assets are scheduled to be revalued in the next financial year. We note that the Council view is that paragraphs 51A and 52 of IPSAS 17 <i>Property, Plant and Equipment</i> does not define what a class of assets should be and therefore the Council does not consider these assets form part of the same class of assets. However, the Council has not reflected in its accounting policy that this is a separate class of assets and has included it within the same line item in the financial statements. This indicates that the Council has grouped it as one class of assets.</p> <p>Should assets not fall within the same class, this should be clearly reflected in the accounting policy and disclosed as a separate line item (that is, a separate class) in the Property, plant and equipment note to the financial statements.</p> <p><b>Management comment</b></p> <p><i>Audit continue to state that a revaluation class needs to be the same as a line in the PPE statements – however this is not a requirement of the standards that staff can identify. Council has determined the revaluation classes on the basis of common sense and less cost to ratepayers having agreed this with the audit team at the time.</i></p>

Recommendation	First raised	Status
		<i>In recent years the revaluation classes have been adjusted to make sure that each class falls entirely within the PPE class and is not split. Council has the breakdown of assets within the revaluation process to accommodate the requirement to revalue Roading assets annually due to the value of that asset base. Other Councils choose not to do that and have Roading assets on a three-year cycle, which means that other Councils can group assets to a lesser degree as their revaluations are far less frequent.</i>
		<p><b>Classification of PPE</b></p> <p>We have confirmed that “Land under roads” has been reclassified as an infrastructural asset in the financial statements. However, “Land under water”, “Land under wastewater”, “Land under district facilities” and “Land under parks and reserves” are still being reported under “Operational Land”. For consistency, these will also need to be reclassified to Infrastructural assets.</p> <p><b>Management comment</b></p> <p><i>This was agreed to be actioned as part of the June 2022 audit.</i></p>
<p><b>Network administrator user accounts</b></p> <p>The allocation of powerful “system administration user accounts” is only provided to those people whose job role it is to maintain the network operating systems software and data. Further, these “accounts” should be associated with strong authentication rules to guard against being compromised.</p>	2020	<p><b>Open</b></p> <p>Our review showed that there are many user “accounts” that have these systems administration rights and some of these do not conform to Council policy on user authentication rules.</p> <p>We noted the structure of Administration Groups includes other Groups. One such case was the “Domain Admins” Group which was included in the “Enterprise Admins” Group. This was deleted whilst we were on site. There are others, that need more close examination in the form of a review.</p>

Recommendation	First raised	Status
		<p><b>Management comment</b></p> <p><i>Only ICT staff and service accounts that require “Domain Admins” are in this group. There are no others.</i></p> <p><i>ICT Staff “Domain Admin” accounts have the prefix SA at the beginning of the username, so they are identifiable.</i></p> <p><i>The SA accounts are only used when the ICT staff member requires elevated access and are not used for their day-to-day access.</i></p> <p><i>All “Domain Admin” accounts require a different password to the ICT staff members day to day account and also require MFA.</i></p> <p><i>The Domain Admins group is not in the Enterprise Admins Group.</i></p>
<p><b>Performance reporting control environment</b></p> <p>Council should establish appropriate controls around the performance reporting process for RFS-related performance measures to ensure calculation methodology used comply with DIA guidance and that those results are fairly stated in the annual report.</p>	2020	<p><b>Open</b></p> <p>For further details please refer to section 5.2 above.</p>
<p><b>Periodic review of network logon accounts</b></p> <p>We recommend that the Active Directory is regularly reviewed to verify that user network logon accounts comply with Council password rules and that the accounts have not become redundant.</p>	2019	<p><b>In progress</b></p> <p>A formal process has been established to regularly review “Active Directory” (AD) to ensure that user network logon accounts are current. Council policy is that network user account passwords must expire and be changed on a regular basis. However, the frequency of password change across the board currently sits at zero, which was approved by the Chief Digital Officer after encountering Covid-19 remote working difficulties.</p> <p>During the current period, a review of “Contractor” network access needs has been continuing. This has seen a significant reduction in the number of redundant user accounts for “Contractors”.</p>

Recommendation	First raised	Status
		<p>We obtained a current listing of network user accounts and reviewed exceptions with ICT operational staff.</p> <p>We noted there are a high number of network user logon accounts that have no requirement for the password to change and additionally, there are many accounts that have not been used for a period longer than six months.</p> <p>We continue to recommend that the review of Active Directory is completed and is regularly performed thereafter to ensure that network user logon accounts comply with Council password rules and good business practice.</p> <p><b>Management comment</b></p> <p><i>The Network Logon Account audit was completed by the Internal Auditor 26/10/2021. This is a reoccurring audit that is included in the Internal Auditors Work Programme.</i></p> <p><i>Additionally, Network Logon Accounts are also audited by the ICT Operations and Delivery team at least every 6 months. A scheduled reminder is programmed via the IT Service Management Tool – Freshservice.</i></p> <p><i>Password expiry rules have not been changed due to all staff being unable to visit the FNDC offices to change their passwords, due to Covid restrictions. Once this restriction has been lifted the ICT team will be reenabling password expiry rules.</i></p> <p><i>ICT staff have also been working on a project where staff will no longer need to visit an FNDC office to change their passwords moving forward. ICT Staff are also rolling out the Self-Service Password Reset functionality which requires staff to provide two additional means of identity verification prior to a password being able to be reset.</i></p>

Recommendation	First raised	Status
		<i>FNDC rolled out mandatory Multi Factor Authentication (MFA) in March 2021 to all staff, elected members, contractors, and vendors.</i>
<b>Segregation of duties – Journal entries</b>  We recommend that management investigate whether changes can be made to the settings in TechOne to prevent the same person from being able to prepare and approve a journal.	2018	<b>Open</b>  The current software does not allow such change to be made in the settings in TechOne.  We will continue to follow up on our recommendation as part of next year audit.  <b>Management comment</b>  <i>There has been no change to this item - the software will not allow control at this level.</i>
<b>User access within TechOne accounting software</b>  We recommend that management reviews user access rights within TechOne on a regular basis to make sure that they are consistent with the Council's policy.	2018	<b>In progress</b>  We noted that an Internal Audit review of network user accounts was carried out in March 2020 and highlighted user access-related issues as well.  The Council is in the process of CIA system upgrade and network user accounts review is covered as part of the system upgrade.  <b>Management comment</b>  <i>Staff are working through access rights as part of the CiA build process. This is intended to refresh all access rights based on current work requirements and should eliminate all legacy access issues.</i>
<b>Consolidated financial statements</b>  Issues noted with the group financial statements in the prior years that could result in Group misstatements going forward are as follows: <ul style="list-style-type: none"> <li>Revaluation cycles - we found that not all assets in a class are revalued at the same time by all entities in the group. For example, FNHL revalue their land and buildings annually and the District Council does not.</li> </ul>	2018	<b>Open</b>  We continued to note that not all assets in a class are revalued at the same time by all entities in the group.  We also note that the accounting treatment for CAPEX PGF funding recognition and other non-cash transactions between the group entities shall be considered carefully as part of the group financial statements consolidation process.

Recommendation	First raised	Status
<ul style="list-style-type: none"> <li>The District Council currently accounts for FNHL land, buildings and runways as separate asset classes for revaluation purposes in the group financial statements.</li> </ul> <p>Unless the FNHL assets are entirely different asset classes from the District Council, the revaluation reserve that relates to assets owned by FNHL should be included in the same revaluation reserve line for the relevant asset class in the group financial statements (whether that is land, buildings etc.).</p>		<p>We recommend that the consolidation process undertaken by Council also takes into consideration the different recognition requirements between the group entities, for example between the FNHL (For-profit) and FNDC (Public Benefit Entity) when revenue and assets are recognised on the group accounts.</p> <p><b>Management comment</b></p> <p><i>After discussions with audit in the past we have agreed that the main cross-over between ourselves and FNHL is in Maritime and the roading strategic properties. As a result of this these classes as revalued annually to match the revaluation cycle of FNHL. Every other asset does not cross over. Council land and Buildings are not income producing or investment properties, so they have been put in a different class to avoid the issue of needless valuations and cost to ratepayers. The basis of these valuations for FNHL is return on investment and that is the reason for holding the properties. The basis of Council's valuations is depreciated replacement costs</i></p> <p><i>Council does consolidate revenue in line with the different recognition requirements - there is a large piece of work conducted each year by FNHL, and reviewed and applied to consolidation, to ensure that revenue received from PGF is recognised as income instead of being netted off against the asset.</i></p>
<p><b>High annual leave balances</b></p> <p>We recommended that annual leave balances are regularly reviewed and action is taken to actively manage the leave liability and mitigate the associated risks.</p>	2017	<p><b>Open</b></p> <p>Leave balances continue to be high.</p> <p><b>Management comment</b></p> <p><i>Covid has not improved the situation with the majority of staff working from home and travel being limited. Staff are encouraged to have a leave plan and in some instances, they are cashing out leave in line with policy. With the borders re-opening, we anticipate that staff will take more leave in the coming months.</i></p>



Recommendation	First raised	Status
<p><b>Significant projects</b></p> <p>We recommended that the Council make sure that, for each project:</p> <ul style="list-style-type: none"> <li>• robust project governance and management structures are in place;</li> <li>• a project plan is developed;</li> <li>• a procurement plan is documented;</li> <li>• a comprehensive risk register is maintained;</li> <li>• regular project reporting is undertaken; and</li> <li>• adequate systems and controls are in place for: <ul style="list-style-type: none"> <li>○ recording and appropriately classifying expenditure;</li> <li>○ ensuring the business benefits are identified, planned, implemented, managed and monitored through appropriate change management; and</li> <li>○ identifying commitments for disclosure in the Council's financial statements.</li> </ul> </li> </ul> <p>We also recommended that the Council consider obtaining independent assurance over significant projects to provide the Council with comfort that appropriate project management practices are being applied.</p>	<p>2016 or earlier</p>	<p><b>In progress</b></p> <p>The Council developed the Project Management Framework in October 2019 and the Council currently have portfolio planning project underway which serves the purpose of developing the Prioritisation Plan.</p> <p>For training purposes, a programme of running PRINCE2 Foundation and in-house sessions are to be carried out. However, this was on hold due to the drought and Covid-19 pandemic.</p> <p><b>Management comment</b></p> <p><i>The Project Management Framework (PMF) which outlines the minimum requirements for all project delivery at FNDC, has been rolled out and embedded within the organisation. The PMO team are pro-actively working with Project Managers across the organisation to support the uptake which is going well.</i></p> <p><i>Project Governance:</i></p> <p><i>A Portfolio Governance Authority Framework has been established and meets quarterly to review portfolio performance.</i></p> <p><i>All projects now have an appropriate governance structure in place (Sponsor, Steering Group for larger initiatives, and included in one of the three Portfolios).</i></p> <p><i>The PMF:</i></p> <p><i>The PMF requires all projects to develop a Project Management Plan, undertake a risk assessment and maintain a Risk Register. Templates and guidance notes have been created and are available to all staff on the Project Delivery Knowledge hub on SharePoint. A project register is maintained which identifies when projects have met these milestones and tracks progress.</i></p>

Recommendation	First raised	Status
		<p><i>Procurement:</i></p> <p><i>For all procurements, a Procurement Plan is completed and reviewed by the Procurement Specialist prior to DFA approval. A Tender Panel reviews any high-risk / high value procurements or where an exception to the Procurement Policy has been requested. These meetings are held fortnightly and have representation from Risk, Legal, Operations, Sustainable Procurement and Finance.</i></p> <p><i>Project Reporting:</i></p> <p><i>Projects provide monthly status reporting to line management, PMO, Sponsor and into relevant Steering Groups.</i></p> <p><i>Project Expenditure:</i></p> <p><i>This is managed by the cost centre manager or Project Manager who monitors project spend via TechOne reporting.</i></p> <p><i>Project Management Training:</i></p> <p><i>In-house training sessions on the Project Management Framework are undertaken regularly. Prince2 Foundation &amp; Practitioner training has been set for May and July 2022 for key staff.</i></p>
<p><b>Deferral of capital expenditure</b></p> <p>We recommended that the Council gives consideration to the impact of deferred capital expenditure on asset condition and any potential impact this may also have on Council's asset valuations and impairment assessments for future reporting cycles.</p>	<p>2016 or earlier</p>	<p><b>In progress</b></p> <p>Council continues to defer capital expenditure.</p> <p>Refer to section 4, capital projects for further details.</p> <p><b>Management comment</b></p> <p><i>Council continues to move away from an age-based asset renewal strategy, relying more on condition assessments as they become known.</i></p>

Recommendation	First raised	Status
<p><b>Conflict of interest</b></p> <p>We recommend that:</p> <ul style="list-style-type: none"> <li>Improvements are made to policies and procedures in connection with the management of conflicts of interest as a matter of priority.</li> <li>Perceived conflicts are proactively managed. This could include making a proactive disclosure to the market to give participants a level of comfort about the District Council's management of perceived conflicts of interest.</li> </ul>	<p>2016 or earlier</p>	<p><b>In progress</b></p> <p>The Council now uses SharePoint to record all conflicts of interest and management plans are stored in Objective. FNDC staff records are in progress of being transferred into SharePoint.</p> <p>New staff are requested to fill in an Employee Declaration Form in SharePoint on their first day at FNDC.</p> <p>With the Council now maintaining the records on an electronic platform, we intend on substantively reviewing how effective this process is as part of our next audit visit.</p> <p>We have found an instance where no updated Interest Declaration Form has been received from a Councillor.</p> <p><b>Management comment</b></p> <p><i>The above is still the process.</i></p> <p><b>Phase 1</b></p> <p><i>However, for year-end 2022, we are progressing to using CiAnywhere platform, where all employee declarations will be held on their personal records.</i></p> <p><i>This will workflow to their reporting manager to approve regardless of a "yes" or "no".</i></p> <p><i>If "yes", a management plan will need to be completed and approved/signed by both manager and employee.</i></p> <p><i>A full rollout is planned for May 2022 for all staff and to be completed by 30<sup>th</sup> of June.</i></p> <p><i>After 30 June 2022, this will be part of our induction for new starters to complete.</i></p> <p><i>Monthly audits will occur to ensure all management plans if any, are completed.</i></p> <p><b>Phase 2</b></p> <p><i>Reporting to SLT</i></p>

Recommendation	First raised	Status
<b>Beneficial</b>		
<p><b>Property, plant and equipment disclosure</b></p> <p>We recommended that management reviews the PPE disclosures in the financial statements in advance of the next annual reporting cycle and considers whether changes can be made so that these more fully comply with the accounting standards.</p>	2017	<p><b>In progress</b></p> <p>Some progress has been made since our last report. For further improvement points discussed, refer to Appendix 1 - <i>Compliance with PBE IPSAS 17 property, plant and equipment</i> update on prior year recommendations.</p> <p><b>Management comment</b></p> <p><i>See comments above.</i></p>
<p><b>Carbon credits</b></p> <p>We recommended that the Council recognise the carbon credits that it acquired at fair value at the date of acquisition.</p>	2017	<p><b>Open</b></p> <p>No progress has been made since our last report.</p> <p><b>Management comment</b></p> <p><i>Council does not have a harvesting strategy. However, it is intended to include a tentative project in the application for Better Of Funding that could support this work alongside other work relating to significant trees within the District.</i></p>
<p><b>Information security policies</b></p> <p>The information security policies were reviewed as part of the Information Security Audit and while due for review, were found to be adequate in terms of content as were the processes sitting in behind these policies and adherence to both.</p> <p>An Internal Policy review was also undertaken by FNDC's Internal Auditor in 2018 and a review programme is underway (these policies scheduled for March 2019 – there were no urgent issues identified with these policies through the audit therefore the updating has been prioritised against other commitments the IS Team have).</p>	2016 or earlier	<p><b>Open</b></p> <p>We noted that the Council implemented information security management policies some time ago. However, these policies have not been reviewed and updated since 2011.</p> <p>With the changes in management structure during the current period it has been decided to set aside the Kaon/MPA Policy System framework. New IT related policies are to be developed, reviewed, approved and published.</p> <p><b>Management comment</b></p> <p><i>The first draft of the new revised ICT Policies has been completed. The next step is for SLT to review and approve the new policies.</i></p>

Recommendation	First raised	Status
		<p><i>The policies have been developed by ICT security specialists, Kaon Security Ltd, and are fully referenced against the relevant legislation and ISO standards. The policy statements are written in plain English and are split into categories for User, Manager, and Technical to avoid any unnecessary complication. They also include a handy explanation to further clarify the intent of the policy statement.</i></p> <p><i>The policy system is kept up to date by Kaon's policy experts with any changes to legislation, standards, and guidelines. Kaon will notify FNDC if any additions or changes are needed which ensures ongoing audit and best practice alignment.</i></p>
<p><b>Conflict of interest management</b></p> <p>A documented approach should be introduced detailing how declared conflicts of interest for staff members are reviewed and mitigations are implemented. The mitigations put in place for each declared interest by staff should be recorded in the Interests Register. We also recommend that all conflict of interest management plans are signed off by staff to confirm that they understand and accept the required mitigations.</p>	2019	<p><b>In progress</b></p> <p>The Council now uses SharePoint to record all conflicts of interest and management plans are stored in Objective. Only new records are on the SharePoint.</p> <p>New staff are requested to fill in an Employee Declaration Form in SharePoint on their first day at FNDC.</p> <p>With the Council now maintaining the records on an electronic platform, we intend on substantively reviewing how effective this process is as part of our next audit visit.</p> <p><b>Management comment</b></p> <p><i>The above is still the process.</i></p> <p><b>Phase 1</b></p> <p><i>However, for year-end 2022, we are progressing to using CiAnywhere platform, where all employee declarations will be held on their personal records.</i></p> <p><i>This will workflow to their reporting manager to approve regardless of a "yes" or "no".</i></p> <p><i>If "yes", a management plan will need to be completed and approved/signed by both manager and employee.</i></p>

Recommendation	First raised	Status
		<p><i>A full rollout is planned for May 2022 for all staff and to be completed by 30<sup>th</sup> of June.</i></p> <p><i>After 30 June 2022, this will be part of our induction for new starters to complete.</i></p> <p><i>Monthly audits will occur to ensure all management plans if any, are completed.</i></p> <p><b>Phase 2</b></p> <p><i>Reporting to SLT</i></p>

## Implemented or closed recommendations

Recommendation	First raised	Status
<b>Non-compliance with the Local Government (Rating) Act</b> Council should ensure there is a robust review in place to ensure consistency between these documents in the future so that rates are charged in line with the overall rates resolution approved by Council.	2020	<b>Closed</b> No issues were noted from audit work.
<b>Bank suspense account</b> Council should ensure suspense accounts are monitored regularly and cleared in a timely manner.	2020	<b>Closed</b> We reviewed age analysis on suspense accounts prepared by the Council and we are satisfied that the bank suspense account is cleared regularly and in timely manner.
<b>Cashing up on annual leave</b> We recommend that Council's leave policy is updated to reflect the legal limits and approval processes for cashing up annual leave balances.	2018	<b>Closed</b> From our review of the policy we note that there is guidance for cashing out annual leave and the limits.

## Appendix 2: Corrected misstatements

Corrected current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Creditors	1		(1 559 000)		
Accruals			2 252 000		
Prepayments		(189 000)			
Sundry Debtors (including postponed rates debtors)		(504 000)			
Other revenue	2				(12 000)
Sundry Debtors (including postponed rates debtors)		12 000			
<b>Total</b>		<b>681 000</b>	<b>693 000</b>	<b>0</b>	<b>(12 000)</b>

### Explanation of corrected misstatements

- 1 To correct calculations related to payables.
- 2 To accrue TACT recharges for year ending June 2021 not previously charged.

### Corrected disclosure deficiencies

Detail of disclosure deficiency
PPE Budgeted figure updated to agree to Annual Plan LTP figure for 2020/21 financial years.
Borrowings and Other Financial Liabilities disclosures updated.
Depreciation policy note updated to include all asset classes.
The prior year comparative for properties declared surplus and held for sale disclosed.
The useful lives for different classes of intangible assets included.
Receivables disclosures updated.
Corrections to Subsidy and Grants totals and FIS.



## Performance reporting deficiencies

Detail of deficiencies
[1.1.3] Roading - % sealed local road network resurfaced result corrected.
[1.2.1] and [1.2.2] relating to footpath had the results included as they had not been reflected in the draft provided for audit.
[3.1.2] Wastewater - Compliance with resource consents - abatement notices, infringement notices, enforcement notices and convictions results corrected.
[2.1.3] Water supply - Median response time to Resolve and Attend fault/interruptions results corrected.
[3.1.1] Wastewater - Total # of Dry weather sewerage overflow results corrected.
[3.1.3] Wastewater - Median response time to Resolve and Attend fault/interruptions results corrected.
[3.1.4] Wastewater - # of complaints result corrected.
[4.1.3] Stormwater - Median response time to attend a flooding event result corrected for the current and prior year.
[6.5.1] measure related to disabled parking status corrected.
Several prior year results were updated to agree to the audited result.
Several targets were updated to be consisted with the LTP.

## Appendix 3: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit and our report on the disclosure requirements, we have performed a limited assurance engagement related to the District Council's debenture trust deed, and completed the audit of the Council's 2021-31 Long-Term Plan and related Consultation Document.</p> <p>Other than the audit and these engagements, we have no relationship with or interests in the District Council or its subsidiaries and controlled entities.</p>
Fees	<p>The audit fee for the year is \$192,367, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are:</p> <ul style="list-style-type: none"> <li>• \$121,800, for the audit of the Consultation Document and Long-term Plan; and</li> <li>• \$7,125, for limited assurance engagement related to the District Council's Debenture Trust Deed.</li> </ul>

Area	Key messages
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council or its subsidiaries during or since the end of the financial year.</p>

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