

**Deloitte.**



**Far North District Council**

Planning Report to the Audit, Risk and Finance Committee  
for the year ended 30 June 2023

### *Purpose of report*

*This report has been prepared for Far North District Council's Audit Committee and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business dated 8 June 2023 and as required by New Zealand auditing standards.*

*This plan is intended for the Audit Committee (and other Board 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 to date and which we believe are appropriate to communicate to the Audit Committee. The ultimate responsibility for the preparation of the financial statements rests with the Board of Directors.*

### *Responsibility statement*

*We are responsible for conducting an audit of Far North District Council for the year ended 30 June 2023 in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the NZ Auditing and Assurance Standards Board. Our audit is performed pursuant to the requirements of the Financial Reporting Act 2013, the Local Government Acts 1974 and 2002 the Local Government (Auckland Council) Act 2009 with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Council. The audit of the financial statements does not relieve management or the Council of their responsibilities.*

*Our audit is not designed to provide assurance as to the overall effectiveness of Far North District Council'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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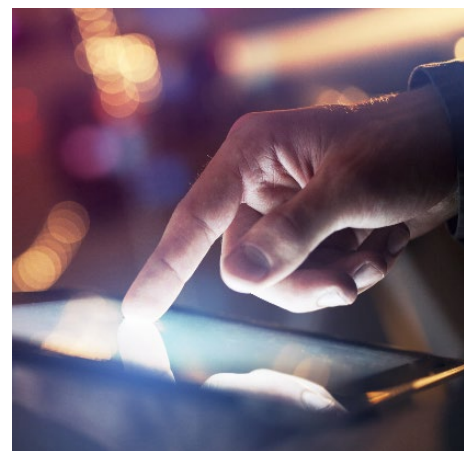
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# 1. Executive summary

Thank you for the opportunity to present our audit plan for the financial statement audit of Far North District Council (FNDC) for the year ending 30 June 2023.

We have presented this report which is designed to outline our respective responsibilities in relation to the audit, to present our audit plan and to facilitate a two-way discussion on the plan presented. Our report includes:

- Our audit plan, including key areas of audit focus and our planned procedures; and
- Key accounting, regulatory and corporate governance updates, relevant to you.

We have an evolving audit plan that is established with input from management. The audit plan is tailored to the FNDC's environment and revised throughout the year to adjust for business developments, additional relevant matters arising, changes in circumstances and findings from activities performed.

This plan is intended for the Audit, Risk and Finance Committee (and other Council members) and should not be distributed further.

We appreciate the opportunity to serve FNDC. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.



Bennie Greyling  
Partner  
for Deloitte Limited  
Auckland | 8 June 2023



## Key areas of audit focus

Our current assessment of the key areas of audit focus are as follows:

Revenue Recognition	Q
Management's ability to override controls	Q
Valuation of infrastructure assets and investment properties	Q
Government reviews and proposals	Q
OAG Audit Brief and other items	Q
Statement of Service Performance	Q
OAG Audit Brief - 2023 flooding events	*



Consistent with the prior year



New areas of focus

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



## Items for consideration

We look forward to discussing our audit plan with you and are interested in your views on the following matters:

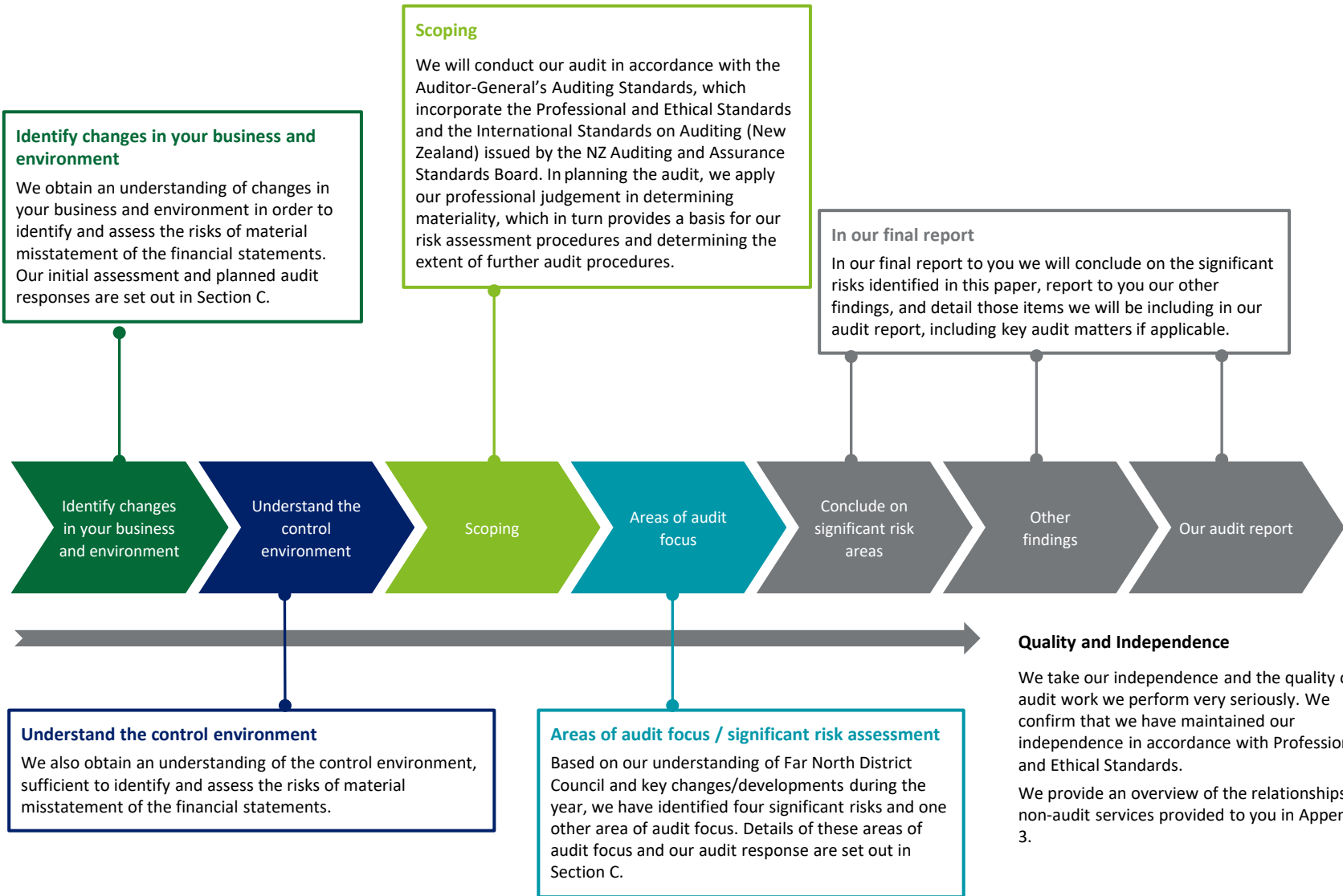
- Any concerns regarding internal controls, including completeness over related parties;
- Any risk matters, including fraud, affecting the financial statements;
- Your assessment of materiality; and
- Any other matters that should be brought to our attention



# 2. Our audit



# A. Our audit explained – a tailored approach



## B. Identifying the areas of audit focus

### Identification of audit risks

Our audit approach is underpinned by the identification of relevant audit risks and tailoring appropriate audit responses to address those risks. We consider a number of factors when deciding on the significant areas of audit focus, such as:

- the risk assessment process undertaken during the planning phase of our engagement;
- our understanding of the business risks faced by Far North District Council;
- discussions with management during the course of our audit;
- the significant risks and uncertainties previously reported in the financial statements, including any NZ PBE IPSAS IAS 1 critical accounting estimates or judgements;
- our assessment of materiality; and
- any changes in the business and the environment it operates in since the last annual report and financial statements;

The next page summarises the significant risks and other areas that we will focus on during our audit.

We continually update our risk assessment as we perform our audit procedures, so our areas of audit focus may change. We will report to you on any significant changes to our assessment as part of our final report to the Audit, Risk and Finance Committee.



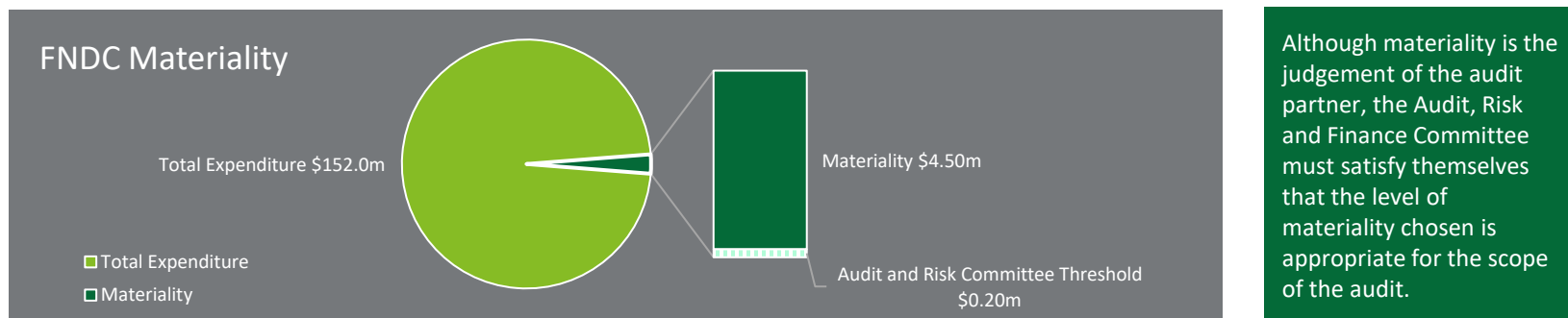
## B. Identifying the areas of audit focus

### Determining materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Our draft quantitative preliminary materiality for the 2023 audit as shown below is based on total expenditure per the 2023 annual plan for FNDC. We note that FNDC Group expenditure is the basis for Group materiality however for the purposes of this audit plan we show materiality specific for FNDC in the diagram below. preventing material misstatement in the financial statements, and the level at which known and likely. This is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. We will update our preliminary materiality assessment once actual total expenditure for the 2023 year is determined.

The extent of our procedures is not based on materiality alone but also on local considerations of subsidiaries and divisions of Far North District Council, the quality of systems and controls in misstatements are tolerated by you in the preparation of the financial statements.



Materiality comparisons	FY23* (\$m)	FY22 (\$m)
Total Group Expenditure <sup>#</sup>	169	156
FNDC Expenditure	152	142
FNDC Materiality	4.5	4.3

\* Per April FY23 TB (extrapolated)

<sup>#</sup> Group consists of FNDC and Far North Holdings Limited. Other entities within FNDC group are limited scope





# C. Areas of audit focus – dashboard

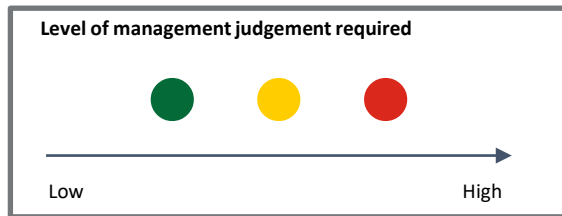


Area of audit focus	Significant risk	Fraud risk	Planned controls testing approach	Level of management judgement required
Revenue Recognition	✘	✘	D+I	●
Management’s ability to override controls	✓	✓	D+I	●
Valuation of infrastructure assets and investment properties	✓	✘	D+I	●
Government reviews and proposals	✘	✘	D+I	●
OAG Audit Brief and other items	✘	✘	D+I	●
Statement of Service Performance	✘	✘	D+I	●
OAG Audit Brief - 2023 flooding events	✓	✘	D+I	●

**Planned approach to controls**

D+I: Testing of the design and implementation of key controls

OE: Testing of the operating effectiveness of key controls



## C. Areas of audit focus



### Area of audit focus

### Our approach

#### Revenue recognition

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 therefore this is a focus area for the audit.

The Council has various revenue streams which need to be considered separately to ensure they are in-line with PBE Standards.

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

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

Material misstatement due to fraudulent financial reporting relating to revenue recognition often results from an overstatement of revenues through, for example, premature revenue recognition or recording fictitious revenues. It may also result from an understatement of revenues through, for example, improperly shifting revenues to a later period. Through our understanding of the Council with the processes in place and level of risk assessed we have rebutted the significant risk of fraud associated with revenue recognition.

We will perform the following audit procedures to ensure that revenue recognition is appropriate:

- Understand, evaluate and assess the relevant controls that address the risks of revenue recognition;
- Assess the quality of information produced from the IT system and ensure accuracy and completeness of reports that are used to recognise revenue;
- Complete a 'rates questionnaire' compiled by the OAG\*, to confirm whether rates have been correctly set; and
- Review the meeting minutes recording the adoption of the rates resolution, to ensure the rates are in accordance with the Revenue and Financing Policy as well as reviewing any other information available with regards to rates;
- Complete analytical procedures by developing expectations based on our knowledge of the sector and key performance measures; and
- Assess the impact of any changes to revenue recognition policies.

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



## C. Areas of audit focus



### Area of audit focus

### Our approach

#### Management override of controls

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 plan to:

- Understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements.
- Test the appropriateness of a sample of journal entries and adjustments and make enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments.
- Review accounting estimates for bias 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.
- Perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.
- Obtain 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.



## C. Areas of audit focus



### Area of audit focus

### Our approach

#### Valuation of infrastructure assets

The Council accounts for revaluations of infrastructure assets on a class of asset basis. The asset classes include waters assets, roading assets, storm and waste assets, heritage assets and investment properties.

Management have adopted a rotation plan for revaluing the asset classes so the valuations are not all completed in the one year. Assets that experience significant changes in fair value are revalued outside the rotation plan. With the recent weather events in early 2023, the fair value of several asset classes assets may also be impacted.

The Council plans to engage independent third party valuation experts to undertake the valuation of these assets, as well as determine (on a desk top basis) whether there has been any material movement in the fair value of the infrastructure assets not subject to a full valuation in 2023.

There is a risk that revaluations are not appropriate because of incorrect assumptions and/or data, and that revaluation movements are not adequately reflected in the financial statements.

To ensure that there are no delays in the FY23 audit, it is crucial that there is ownership over the fixed asset reconciliation process and both finance and infrastructure asset team complete the following procedures before our August audit visit:

- Reconciliation between the GL and fixed asset register as at June 23;
- Construction and renewal information has been updated in the underlying fixed asset database;
- The opening and closing balance, additions and disposals in the valuation reports be reconciled with the underlying financials and RAAM data;
- Management to have reviewed the valuation reports and challenge the assumptions and statements made by the valuers in the valuation report.
- Provide updates on the recommendations made from the prior year audit valuers and peer reviewers.

In order to address this risk, we plan to:

- Follow up with management on any findings have raised on Property, Plant and Equipment;
- Obtain the independent valuations of the relevant infrastructure asset classes;
- Obtain representations directly from the independent valuers confirming their valuation methodology;
- Review the reconciliations to underlying data;
- Review the key underlying assumptions used by the independent valuers to determine whether these assumptions were reasonable and in line with NZ generally accepted accounting practice (NZ GAAP);
- Hold various discussions with the valuers as appropriate; and
- Determine whether the revaluation transactions are correctly accounted for and disclosed in the financial statements in compliance with NZ GAAP. If there is significant valuation uncertainty noted, ensure that this has been adequately disclosed in the financial statements;
- Review desktop reports from the valuers to identify any material fluctuations in value of assets not revalued in the current year;
- Obtain representations from management's experts as to impairment indicators and material fluctuations in respect of assets not revalued in the current year; and
- Consider any caveats included in the valuation;
- Review the disclosures in the financial statements on the revaluation assumptions.



## C. Areas of audit focus



### Area of audit focus

### Our approach

#### Government reviews and proposals

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

#### *Three waters reform*

The Government is currently carrying out the Three Waters Reform Programme through a suite of legislation including;

- The Water Services Entities Act
- The Water Services Legislation Bill
- The Water Services Economic Efficiency and Consumer Protection Bill

In early April 2023 the Government announced changes to the water services reform programme. These changes included increasing the number of new water services entities from four to ten. The ten new entities will replace the services currently managed by 67 territorial local authorities.

The Government also decided to change the establishment date of the entities, with the new entities going live sequentially from early 2025 with this process to be completed by 1 July 2026 at the latest.

The Government intends introducing and passing legislation to implement these changes and associated matters before the 2023 general election.

As part of our audit process we will:

- Continue 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
- Maintain close communication with the Office of the Auditor-General ('OAG') if there are any other areas that requires further consideration.

Our audit report will likely draw readers' attention to disclosures made in the financial statements setting out the three waters reforms and their impact on the councils' operations, and ensure that any disclosures made by councils should be balanced and fair.



## C. Areas of audit focus

### Area of audit focus

#### OAG Audit Brief and Other items

The OAG Audit Brief has been updated with the main change being allocation of a significant risk relating to the 2023 flooding events. *Refer to slide – ‘OAG Audit Brief – 2023 flooding events’ below.*

The main areas of focus include:

- **Related party transactions, conflicts of interest, sensitive expenditure and severance payments**
- **Legislative compliance**
- **Procurement:** Procurement is an area of focus for the work programme of the Auditor-General (OAG) and while no specific projects have been identified relating to local government at this stage for 2022/23, it is expected that major capital projects and significant procurement activity are areas where audit effort is focused.
- **Central government/stimulus funding:** It is important that Council is accounting for this funding in accordance with PBE accounting standards, being transparent with communities and meeting any obligations.
- **Climate Change:** Climate change is an area of focus for the work programme of the OAG as Local government is becoming a focus for climate change related action. The OAG focuses on the Councils ability to provides for the resilience of infrastructure assets to the risk of natural hazards, including making sufficient financial provision to respond to these risks.

### Our approach

We plan to meet with management to update our understanding of the plans and processes in place to address the focus areas of the OAG, including understanding any information requests from central government organisations during the period.

For funding received, we will review contracts and focus on the risk that revenue may not be recoded in the appropriate accounting period due to incorrect recognition or deferral of revenue. This could arise from incorrectly identifying conditions or restrictions associated with revenue transactions or incorrectly applying the contractual terms associated with the timing of when revenue is recognised;



## C. Areas of audit focus



### Area of audit focus

### Our approach

#### OAG Audit Brief (continued)

- **Three waters reform** : Council needs to ensure that they disclose any developments or changes (as a result of the three waters reform) appropriately. This may include changes to the Government's proposal, or the progress of the Bill through the House. The Water Services Legislation Bill and Water Services Economic Efficiency and Consumer Protection Bill are current before select committee. Councils may also be able to provide more quantitative information on the potential impact on the financial statements if the bills are passed
- There is also a risk that Council may make decision or approve projects which are inconsistent with the interests of the water entities.
- **Capital expenditure delivery** : Capital expenditure is a focus area for the OAG and the focus will be placed on Councils ability to delivery in line with the 2021/31 LTP.

Our audit report will draw readers' attention to disclosures made in the financial statements setting out the three waters reforms and their impact on the councils' operations, and ensure that any disclosures made by councils should be balanced and fair.



## C. Areas of audit focus



### Area of audit focus

### Our approach

#### Statement of service performance

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 LTP.

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.

We are to consider 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).

Based on our 2022 audit, a number of inconsistencies/errors were identified in the SSP which were corrected following communication to management.

It is important that management have their own procedures in place to ensure reports used in the SSP are correct and agree to supporting documentation.

Council is required to adopt PBE FRS 48 *Service Performance Reporting*

- We will review Council's SSP against legislative requirements and good practice. This will include checking consistency with the performance framework included in 2021-2031 LTP and 2022/2023 annual plan;
- We will audit a sample of the reported performance measures, with a focus on the more significant Council activities; and
- We will review 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".
- We will also consider the adequacy of the SSP in light of the new requirements of PBR FRS 48





## C. Areas of audit focus

### Area of audit focus

#### OAG Audit Brief – 2023 flooding events

In 2023, weather-related events including Cyclone Gabrielle caused flooding that significantly disrupted several regions of New Zealand. Potential implications include:

- whether internal controls used to manage council financial and service performance information systems remained design and operationally effective when operations were disrupted;
- the impairment and/or disposal of PPE that cannot be repaired;
- how the unrepaired damage to revalued PPE is reflected in any resulting valuation;
- the recognition of insurance proceeds received or receivable from insured assets that are damaged;
- the recognition of any grants received or receivable from the Crown or other third parties;
- how to reflect the performance story of the flooding events in the reported performance information;
- whether there is any risk to councils of litigation resulting from the flooding events; and
- whether there are implications to the going concern assumption

### Our approach

We plan to meet with management to understand how the weather-related events has impacted FNDC. In particular, we will perform audit procedures over impairment of PPE, recognition of insurance and grants received or receivable, presentation of flooding events in the reported performance information, litigation arising from flooding events and implications to the going concern assumption.



## D. Quality of accounting records

- Accounting continues to become increasingly complex while at the same time, the level of regulatory scrutiny rises.
- While Council members are not expected to be accounting experts, there must be records demonstrating that they have:
  - Adequately questioned and assessed the key accounting treatments applied;
  - Applied professional scepticism when assessing management’s views on areas on significant judgements and estimates; and
  - Acted on a fully informed basis, in good faith and with due diligence and care;
  - we have listed what we consider to be the main success factors in producing effective accounting papers below and note this list is non-exhaustive.

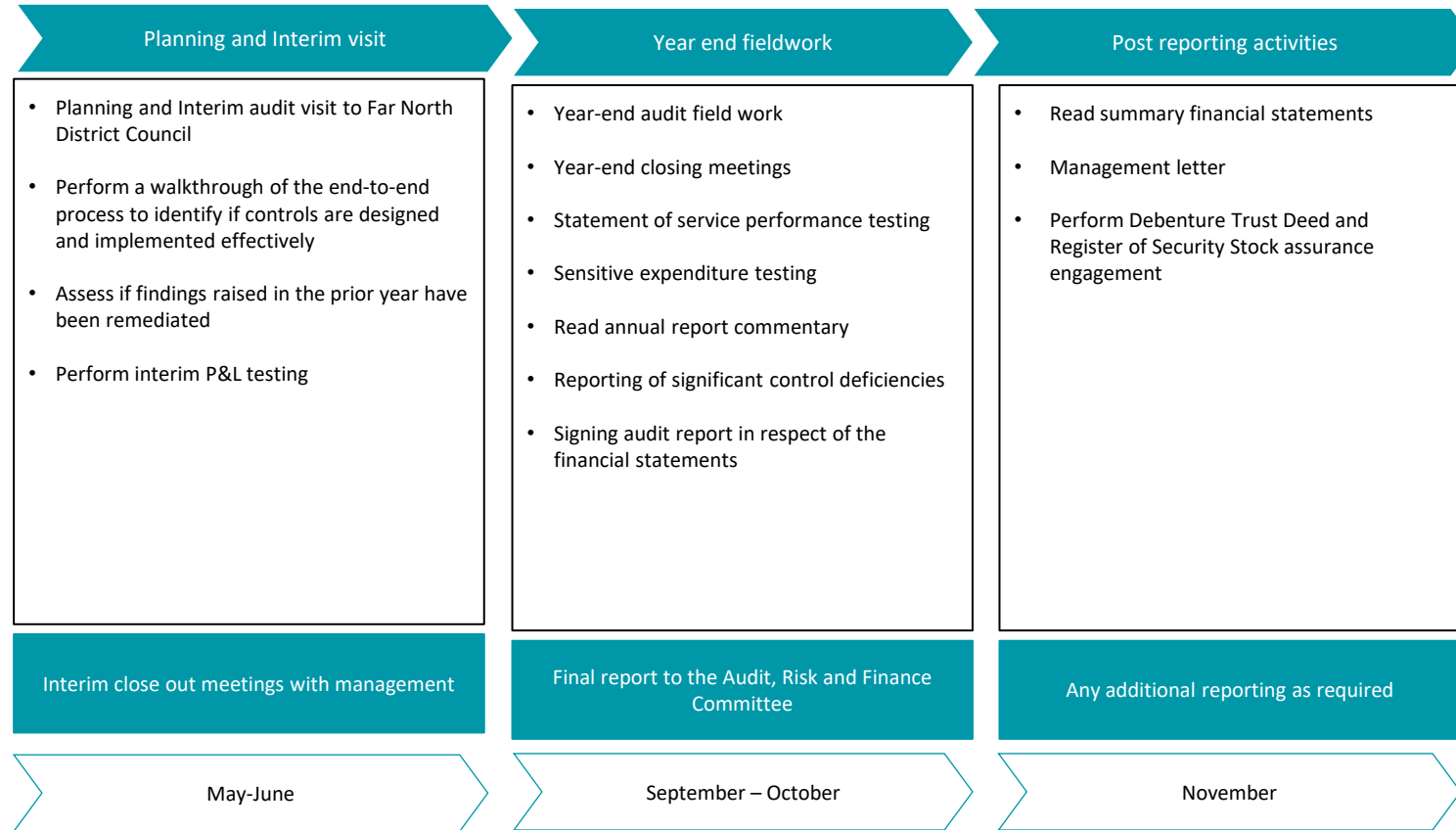


Key elements of appropriate accounting records	Comments
<ul style="list-style-type: none"> <li>Have accounting papers been prepared for all significant, complex transactions that happened during the year, or where significant judgements or estimates were required?</li> <li>Were appropriately qualified specialists consulted, their reports properly considered, and assumptions validated?</li> <li>Were accounting papers reviewed and approved at the appropriate level of management?</li> <li>Fulsome analysis of contract(s) and other relevant facts and circumstances?</li> <li>Documented considerations of further implications?</li> <li>Contain a full and accurate description of the journals?</li> <li>Did the papers consider the relevant disclosures required by the accounting standards?</li> <li>Is there a Council approved-list of omitted disclosures that are confirmed to be immaterial?</li> </ul>	<p>Accounting papers are not generally prepared by management and should ideally be prepared for areas of key judgement or estimation.</p> <p>Accounting papers could be extended to consider further implications on other areas of financial reporting such as:</p> <ul style="list-style-type: none"> <li>Valuation outcome including key assumptions and judgements made in their determination;</li> <li>Covid -19 impacts in the period and their impact on the financial results as well as relevant disclosures made thereon;</li> <li>Methodologies and workings on every activity statement measure which will ensure that the calculations for every quarter is consistent.</li> <li>Any specific areas of the SSP which are considered more sensitive or judgemental which should be brought to the attention of Council for debate or ratification;</li> <li>Areas such as shovel ready, PGF funding and three waters where there are conditions and stipulations in the contract. Accounting papers should be completed for each significant project to ensure that revenue is recognised in line with PBE IPSAS.</li> </ul>



# E. Continuous communication and reporting

The audit plan is executed throughout the year and hence the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



Ongoing communication and feedback



## F. Our team

Our audit will be led by Bennie Greyling as the Audit Partner.

He will oversee the co-ordination of the audit and has primary responsibility for working with your management team.

Shrav Chandra will be the primary point of contact for the finance team and will oversee the day to day execution of our group audit.

There are tax balances within the group accounts and we will allocate an appropriate specialist where necessary.

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### Name / Role

Bennie Greyling  
Audit Partner

Shrav Chandra  
Audit Manager

### Contact details

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# 3. Other reporting matters



# 3A. Fraud responsibilities and representations



## Your responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



## Our responsibilities:

- We are required to obtain representations from those charged with governance regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the areas of audit focus section of this document, we have identified the risk of fraud in management override of controls as a significant audit risk for your organisation.
- As required, we will consider any significant related party transactions outside the entity's normal course of business



## Fraud characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will make inquiries of management, internal audit and others within the entity as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting Far North District Council. In addition, we are required to discuss the following with the Audit, Risk and Finance Committee:

- Whether the Audit, Risk and Finance Committee has knowledge of any fraud, suspected fraud or allegations of fraud;
- The role that the Audit, Risk and Finance Committee exercises in oversight of Far North District Council's assessment of the risks of fraud and the design and implementation of internal control to prevent and detect fraud;
- The Audit, Risk and Finance Committee's assessment of the risk that the financial statement may be materially misstated as a result of fraud.

We will be seeking representations in this area from the Council in due course.



## 3B. Group audit considerations

Given the number of components within the Group, we have assessed the extent of procedures required to be performed at each location in order to gather sufficient audit evidence to reduce the risk of a material misstatement.

Our assessment of the scope of work to be performed on the group's components is based on financial significance of the Group's components, our initial risk assessment, materiality, and our understanding of the business in which the Group operates. A summary of the nature of work to be performed for each component entity is provided on the next page.



## 3B. Group audit considerations (cont.)

A summary of the nature of work to be performed on group entities and details of component auditors is as follows:

Location (or subsidiary)	Component auditor (firm and partner name)	Scope
Far North District Council	Deloitte (Auckland, Bennie Greyling)	●
Far North Holdings Limited*	Deloitte (Auckland, Bennie Greyling)	●
Bay of Islands Marina Limited**	Deloitte (Auckland, Bennie Greyling)	●
Far North Housing Limited**	Deloitte (Auckland, Bennie Greyling)	●
Far North Skincare Limited <sup>#</sup>	Deloitte (Auckland, Bennie Greyling)	●
Kaikohe Berryfruit <sup>###</sup>	Deloitte (Auckland, Bennie Greyling)	●
Pou Herenga Tai Twin Coast Cycle Trail Charitable Trust <sup>1</sup>	Deloitte (Auckland, Bennie Greyling)	●
Te Ahu Charitable Trust <sup>1</sup>	Deloitte (Auckland, Bennie Greyling)	●
Northland Inc. <sup>###</sup>	Deloitte (Auckland, Bennie Greyling)	●

\* 100% Council Controlled Organisaion

\*\* Wholly owned subsidiaries

<sup>#</sup> 50% equity shareholding of joint venture

<sup>###</sup> Investment in associate

<sup>1</sup> Council controlled organisation

### Scope legend



Financially significant, subject to full scope audit



Significant due to risk, subject to audit of specified account balances



Non-significant, subject to analytical procedures, specific procedures or review



## 3C: Independence and fees

We are still working through the proposed fees with management and the OAG. and are also reviewing what is considered a fair rate per hour. We will update you on our progress at the meeting

List of Services	FY23 fees (\$'000)	FY22 fees per APL (\$'000)
Fees payable for the audit of the Group financial statements (excluding disbursements)	TBD	187
<b>Total audit fees for financial statements</b>		<b>187</b>
Other assurance services	<b>TBD</b>	
- Trustee Reporting	-	5
<b>Total audit related and other assurance fees</b>		<b>192</b>
Fees payable for the audit of the Group financial statements (excluding disbursements)	<b>TBD</b>	187



# 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 IPSAS 41 Financial Instruments	1 January 2022
PBE IFRS 17 Insurance Contracts	1 January 2023

## 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.

In addition, disclosure is required in the financial statements prior to the effective date of the new standards. Disclosure should outline:

- how the key concepts will be implemented and how this differs to current practice,
- the timeline for implementation and expected use of any transition options, and
- quantitative/qualitative information on the magnitude of the expected impact.

## 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

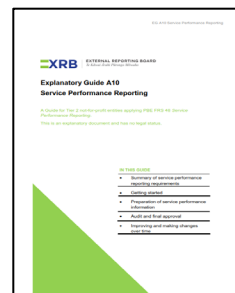
Determine the impact on covenants & regulatory capital requirements, tax, dividends & employee incentive schemes



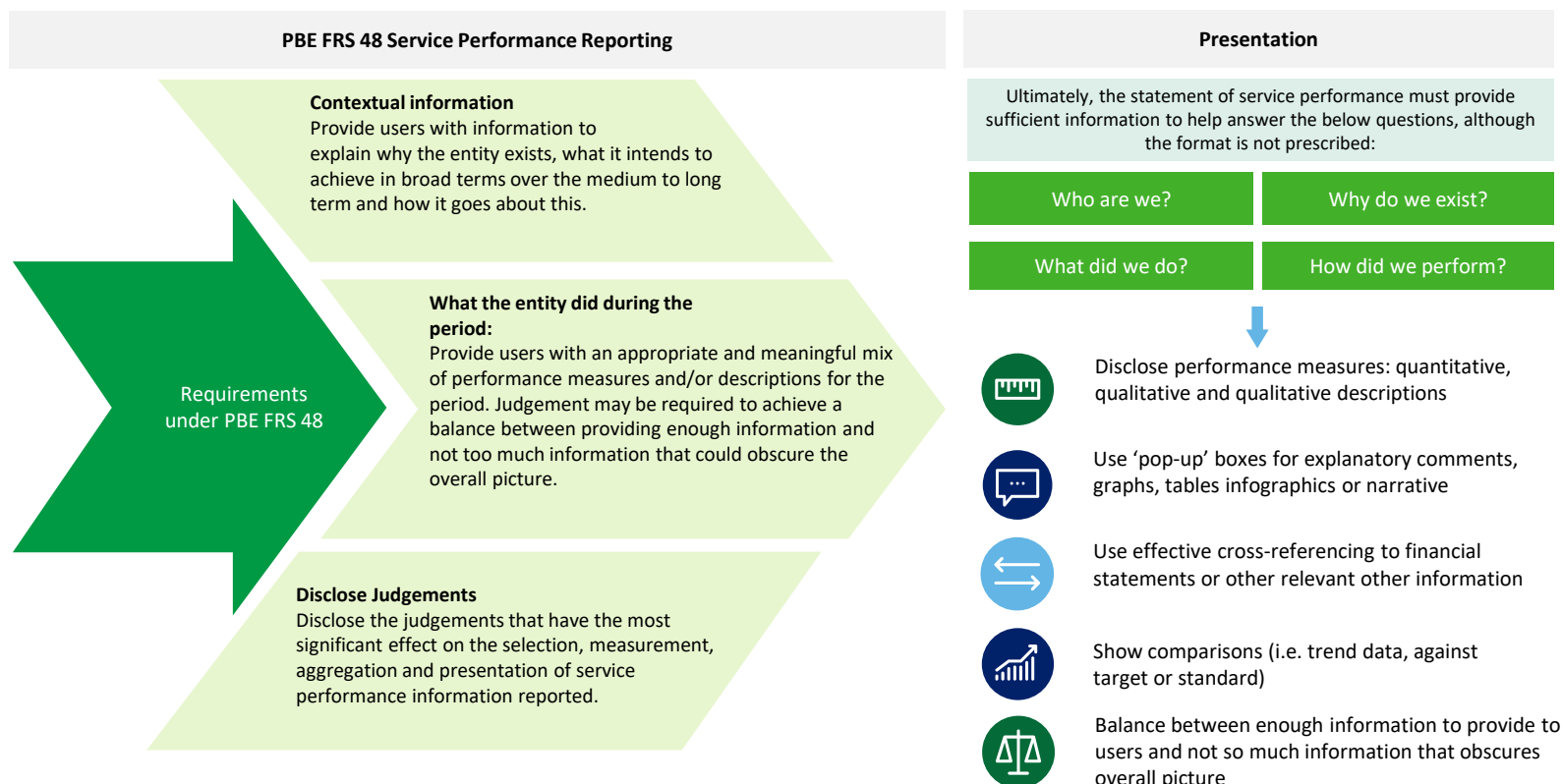
# Developments in financial reporting – PBE FRS 48 *Service Performance Reporting*

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 Interest Rate Benchmark Reform (Amendments to PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30)



## In a nutshell

- Interbank offered rates (IBORs) are interest reference rates, such as LIBOR, EURIBOR and TIBOR, that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity and in a particular interbank term lending market. Recent market developments have brought into question the long-term viability of those benchmarks.
- The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*, or PBE IPSAS 41/PBE IFRS 9 *Financial Instruments* which require forward-looking analysis. There are also amendments to PBE IPSAS 30 *Financial Instruments: Disclosures* regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.
- The changes in Interest Rate Benchmark Reform
  - modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
  - are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
  - are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
  - require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

## Effective date

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted.



# Developments in financial reporting – PBE Interest Rate Benchmark Reform (Phase 2) (Amendments to PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30)



## In a nutshell

- The amendments address issues that might affect financial reporting after the reform of an interest rate benchmark ('IBOR reform'), including its replacement with alternative benchmark rates. The changes relate to the modification of financial assets, financial liabilities, specific hedge accounting requirements, and disclosure requirements to accompany the amendments regarding modifications and hedge accounting.
- **Modification of financial assets, financial liabilities and lease liabilities.** The amendments introduce a practical expedient for modifications required by the IBOR reform (modifications required as a direct consequence of the reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the existing requirements.
- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements.
- **Disclosures.** In order to allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition, the amendments require that an entity discloses information about:
  - how the transition from interest rate benchmarks to alternative benchmark rates is managed, the progress made at the reporting date, and the risks arising from the transition;
  - quantitative information about non-derivative financial assets, non-derivative financial liabilities and derivatives that continue to reference interest rate benchmarks subject to the reform, disaggregated by significant interest rate benchmark;
  - to the extent that the IBOR reform has resulted in changes to an entity's risk management strategy, a description of these changes and how is the entity managing those risks.

## Effective date

The amendments are effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted. In some cases where the amendments relate to standards that are not yet effective, the amendments are effective from 1 January 2021 or when an entity applies those standards.



# 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”*

# Managing conflicts of interest

The following document provides insights into how to manage conflicts of interest



## Getting it right

*Managing conflicts of interest involving council employees*

- The full document can be found here :

[Getting it right: Managing conflicts of interest involving council employees — Office of the Auditor-General New Zealand \(oag.parliament.nz\)](https://www.oag.parliament.nz/getting-it-right-managing-conflicts-of-interest-involving-council-employees)





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