



Rangitikei
UNspoilt...

Rangitikei District Council

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Audit/Risk Committee Meeting

Order Paper

**Thursday, 12 June 2017,
9.00 am**

**Council Chamber, Rangitikei District Council
46 High Street, Marton**

Website: www.rangitikei.govt.nz

Email: info@rangitikei.govt.nz

Chair

Mr Craig O'Connell

Membership

Councillors Nigel Belsham, Angus Gordon and Dean McManaway
His Worship the Mayor, Andy Watson (ex-officio)

Please Note: Items in this agenda may be subject to amendments or withdrawal at the meeting. It is recommended therefore that items not be reported upon until after adoption by the Council. Reporters who do not attend the meeting are requested to seek confirmation of the agenda material or proceedings of the meeting from the Chief Executive prior to any media reports being filed.



Rangitikei District Council

Audit and Risk Committee Meeting

Agenda – Monday 12 June 2017 – 2:00 pm

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The quorum for the Audit and Risk Committee is 3.

Council's Standing Orders (adopted 3 November 2016) 10.2 provide: The quorum for Council committees and sub-committees is as for Council, i.e. half the number of members if the number of members (including vacancies) is even or a majority if the number of members is odd.

1 Welcome

2 Council prayer

3 Apologies

4 Members' conflict of interest

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

5 Confirmation of order of business

That, taking into account the explanation provided why the item is not on the meeting agenda and why the discussion of the item cannot be delayed until a subsequent meeting, be dealt with as a late item at this meeting.

6 Confirmation of minutes

The Minutes of the Audit/Risk Committee meeting held on 18 May 2017 are attached.

File ref: 3-CT-17-2

Recommendation

That the Minutes of the Audit/Risk Committee meeting held on 18 May 2017 be taken as read and verified as an accurate and correct record of the meeting.

7 Chair's report

A report will be provided at the meeting.

Recommendation

That the Chair's report to the Audit/Risk Committee meeting held on 18 May 2017 be received.

8 Work Programme Matrix

A discussion document will be tabled at the meeting

9 Understanding Council's Risk Appetite – 'Consenting philosophy'

A verbal update will be provided to the meeting.

Recommendation

That the verbal update to the Audit/Risk Committee meeting held on 18 May 2017 on understanding Council's risk appetite – 'Consenting philosophy' be received.

10 Overview of intended process for auditing the 2018-28 Long Term Plan (following the office of the Auditor General's methodology)

A verbal update on the intended process for auditing the 2018-28 Long Term Plan (following the office of the Auditor General's methodology) will be provided to the meeting.

Recommendation

That the verbal update to the Audit/Risk Committee meeting held on 18 May 2017 on the intended process for auditing the 2018-28 Long Term Plan (following the office of the Auditor General's methodology) be received.

11 Audit planning letters for 2016/18

File: 5-EX-2-3

The following are attached:

- Draft Audit Arrangements Letter for the year ended 30 June 2017
- Draft Audit Proposal Letter for the years ended 30 June 2017 to 2019; and
- Draft Audit Engagement Letter for the years ended 30 June 2017 to 2019

The Audit Proposal Letter (APL) sets out the audit fee for the next three years and has been through a moderation process with the Office of the Auditor-General.

The Audit Engagement Letter (AEL) sets out the Council's responsibilities and Debbie Perera's responsibilities as Appointed Auditor. This letter is issued when a new APL is issued and it remains in place over the same period (3 years). It avoids the need for the Auditor's responsibilities to be repeated in the Audit Arrangements Letter each year.

The Audit Arrangements Letter (AAL) sets out the areas of audit focus and the audit logistics for the current year.

Recommendation

That the Audit planning letters for 2016/18 be received.

12 Risk management framework for the 2018-28 Long Term Plan

A memorandum is attached

File: 1-LTP-4-5

Recommendation

That the memorandum 'Risk management framework for the 2018-28 Long Term Plan' be received.

13 Proposed revision to risk management framework

The current position of Local Government New Zealand (as at 23 May 2017) is attached together with four risk models presented for discussion at sector workshops in November 2016

A presentation will be provided to the meeting.

14 Committee review

The Chair will provide an update based on feedback from Committee members on the revised evaluation form.

15 Late items

16 Future items for the agenda

Interim audit management report for the year ended 30 June 2017 (with draft management comment)

The second interim audit visit is scheduled for the week beginning 12 June 2017. The interim management report (which is planned to be with Council by 26 June 2017) will incorporate the findings from both interim audits and from Robin Dearlove's recent Information Systems review.

Request from Edale for an interest-free loan

Havelock North stage one report

17 Next meeting

Monday 14 August 2017, 2.00 pm

18 Meeting closed

Attachment 1

Rangitikei District Council

Audit and Risk Committee Meeting

Minutes – Thursday 18 May 2017 – 9:00 AM

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Present:

Mr Craig O'Connell (Chair)
His Worship the Mayor, Andy Watson
Cr Nigel Belsham
Cr Angus Gordon
Cr Dean McManaway

Also Present:

Cr Graeme Platt

In attendance:

Mr Ross McNeil, Chief Executive
Mr Michael Hodder, Community & Regulatory Services Group Manager
Mr George McIrvine, Finance & Business Support Group Manager
Ms Debbie Perera, Audit New Zealand
Ms Nardia Gower, Governance Administrator

Tabled Documents

Presentation to Management of Rangitikei District Council from Edale

1 Welcome

The Chair welcomed the Committee members to the meeting

2 Council prayer

The Chair read the Council prayer

3 Apologies/leave of Absence

Nil

4 Members' conflict of interest

Members were reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

His Worship the Mayor had been advised by Council Chief Executive that he has no conflict of interest in matters regarding Edale within this Committee as His Worship the Mayor is an appointed board member. His Worship the Mayor asked for feedback from the Committee members on the perceived conflict of interest in regards to Edale noting he will seek further advice from Council.

The Chair and Committee agreed to have His Worship the Mayor included in conversations regarding Edale. The Chief Executive noted that this Committee has a limited level of delegation appointed by Council and that any recommendations from Audit/ Risk go before Council for decision.

5 Confirmation of order of business

The Chair noted that there would be a late item discussion on the Havelock North Stage One Enquiry.

6 Confirmation of minutes

The minutes of the previous meeting on the 20 April 2017 were attached. There were no amendments.

Resolved minute number

17/ARK/005

File Ref

That the Minutes of the Audit/Risk Committee meeting held on 20 April 2017 be taken as read and verified as an accurate and correct record of the meeting.

His Worship the Mayor / Cr Gordon. Carried

7 Continuing membership of LAPP (Local Authorities Protection Programme)

Mr McIrvine updated the Committee on the follow up investigations outlined in his report. He noted that there is \$10 million left in LAPP's residual funds; however, the forecasted risk of major events is increasing. Aon is advising that there is an increased seismic risk associated with the Hikurangi Trench that has potential to affect the Manawatu Whanganui region as well as the East Coast, Hawkes Bay and Wairarapa – an event of significant magnitude could wipe out LAPP's fund. There is also the possibility of a contingent liability. Mr McIrvine offered his opinion that mutual funds may be suitable for small events but do not work well for large scale events. If there was to be an event affecting the wider region, the Rangitikei District would only receive a proportion of the fund that potentially would not cover all the costs involved in recovery. Confirmation had been received overnight that Council's 2018 LAPP contribution would be \$81,000.

The Committee discussed the merits of the staying or withdrawing from LAPP. The main points of those discussions were:

- Aon has been approached by 13 various Council members of LAPP. From those 13, three are staying with LAPP. The other ten are yet to decide.
- There is significant risk in staying in LAPP. There is a large threat that overhead expenditure will be spread amongst the fewer remaining LAPP members along with any requirements to top up the fund to \$10 million should it fall below. The fewer members the larger each will be required to pay.
- There is substantial monetary savings in withdrawing from LAPP and seeking alternative insurance cover through an AON/MWLASS option, while the coverage from a major event is equal if not greater.
- It is uncertain as to whether Council might benefit from any possible residual mutual fund should LAPP fold while Council is still a member, noting our shareholder allocation is small.

Resolved minute number

17/ARK/006

File Ref

3-FM-6-6

That the report 'Options for insuring Council's below-ground infrastructure assets – further consideration 2017' be received

His Worship the Mayor / Cr Belsham. Carried

Resolved minute number

17/ARK/007

File Ref

3-FM-6-6

That Council confirms its intention to withdraw from the LAPP Fund from 1 July 2017 and makes arrangements for alternative insurance cover through the AON/MWLASS option.

Cr Belsham / Cr Gordon. Carried

8 Request for interest-free loan from Edale

At its meeting on 27 April 2017, as part of deliberations on submissions to the 2017/18 Annual Plan, Council considered a request from the Edale Trust Board for an interest free loan and resolved that a report be provided to Council meeting on 25 May 2017. Since then the Mayor, Deputy Mayor and Chief Executive have met with representatives of the Trust Board. The presentation from the Trust Board at that meeting was circulated.

The Chief Executive spoke to the Committee about the details of the meeting and the subsequent work that has followed. The highlights of that are:

- Council staff requested further information from the Edale Trust Board. Upon receipt of that information Mr McIrvine noted that there was incorrect information provided in relation to the projected cash flows.
- Council has received Edale's 2016 financial statement, with the last six months financials still a work in process. That document will not be ready for 3 to 4 months. Council staff cannot make a full and proper assessment until receipt of all the correct documentation requested. Included in the assessment will be the valuation of Edale property as this will be a consideration for Council in potential loan security.
- The Trust Board is seeking independent legal advice regarding the organisations on the current trust deed, which could result in it being altered.
- Advice for the Board's structure and governance is being sought from the Institute of Directors.

Committee discussion resulted in the following main points:

- Edale's creditors will probably wait knowing that Council is assisting with the business plan and considering Edale's loan request.
- Council could signal interest in looking into the request for a loan on the proviso that operational governance is changed and loan security is confirmed.
- Council staff working with members of the Edale Trust Board aim to produce a robust business plan that may mitigate the need for financial investment from Council.
- This Committee's concern is centred on security of any potential loan. The matter is then for Council to decide on the basis of supporting a local service.

The Chief Executive stated that a full assessment and analysis is unlikely to be presented at the next Audit/Risk meeting due to time required to formalise necessary documentation.

9 Late items

10 Future items for the agenda

Havelock North Stage One report has been released. Matters within the report will be of interest to this Committee and to Council. The Government has yet to give a clear indication on how implementation of recommendations are to be funded

Ms Perera noted items of interest from Audit New Zealand for the next meeting.

- Overview of intended process for auditing the LTP (following the office of the Auditor General's methodology soon to be finalised.
- Audit arrangements letter for 2017/2018
- Interim Management Report for 2016/17.

11 Next meeting

12 June 2017, 2.00 pm

12 Meeting closed at 9:59

Attachment 2

31 Amesbury Street
PO Box 149, Palmerston North 4440
Phone: 04 496 3099

2 June 2017

Andy Watson
Mayor
Rangitikei District Council
Private Bag 1102
Marton 4741

Dear Andy

Audit for the year ending 30 June 2017

I am writing to outline our arrangements for the audit of Rangitikei District Council for the year ending 30 June 2017. This letter has two main sections – an agreement to be signed, and details of the audit.

Agreement to be signed

On the next page is an agreement that you need to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return one copy of the agreement, along with a copy of the details of the audit.

Details of the audit

Here we set out the proposed arrangements for this year's audit. These include:

- business risks/issues and our audit response; and
- logistics (such as our audit team, timing, and fees).

Additional information attached

We have attached two appendices for your information:

- Appendix 1: Additional information about the audit; and
- Appendix 2: Information we will need, with space for you to record who will take responsibility for providing this information and when it will be available

Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely

Debbie Perera
Director

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed

Andy Watson
Mayor

Date

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of Rangitikei District Council (the District Council) for the year ending 30 June 2017. These include:

- business risks/issues and our audit response; and
- logistics (such as our audit team, timing, and fees).

2 Your business risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main business risks and issues facing the District Council. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence (as set out in the Audit Engagement Letter dated 2 June 2017).

The table below sets out the business risks and issues that we have identified in line with these requirements. The left-hand column describes these risks and issues. In the right-hand column, we describe how we plan to respond to these during the audit.

| Your business issues | Our audit response |
|--|--|
| Risk of management override of controls and fraudulent financial reporting | |
| Professional auditing standards require us to consider fraud risks in all audits we perform, including the risk of management override of control. Management is in a powerful position to perpetrate fraud due to its ability to override controls that appear to be operating effectively. | We will carry out substantive audit procedures, including review of journal entries, accounting estimates and significant transactions that are outside the normal course of business. We will incorporate an element of unpredictability in our audit testing through random sampling. We will also assess whether relevant controls are designed effectively in a way that reduces the risk of override |
| June 2015 rainfall event | |
| As a result of the rainfall event that hit the District over 20-21 June 2015, the Council's roading infrastructure sustained damage. Significant work to remedy the damage has been completed during the 2015/16 year, with additional expenditure planned for the 2016/17 year. | We will follow up on the progress of the repairs made to the District Council's affected infrastructure assets and ensure that they are appropriately reflected in the financial statements. |

| Your business issues | Our audit response |
|---|--|
| Revaluation of Property, Plant and Equipment | |
| <p>The District Council periodically revalues its operational and infrastructural assets. PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>We understand the District Council will undertake a revaluation of operational land and buildings and infrastructure assets for the purposes of the 30 June 2017 annual report.</p> | <p>We will review the revaluation to:</p> <ul style="list-style-type: none"> • assess the valuation process, including the competence and experience of the person completing the valuation; • review the valuation report to assess whether the requirements of PBE IPAS 17 <i>Property, Plant and Equipment</i> (including the appropriateness of the valuation basis) have been met; • ensure changes to values and depreciation charges have been appropriately accounted for; and • assess the presentation and disclosure of information related to the valuation in the financial statements. <p>As part of the process, we will:</p> <ul style="list-style-type: none"> • enquire into the processes employed by the District Council to ensure that the items revalued are complete, and any items excluded from the revaluation are identified and the reason for their exclusion is documented.; • review the District Council's process to satisfy itself that overall the revaluation results are appropriate; and • obtain an assurance letter from the valuers and, if appropriate, hold discussions with the valuers to understand the valuation methodology and results. |
| Performance measures | |
| <p>The Non-Financial Performances Measures Rules 2013 promulgated by the Department of Internal affairs specify a set of standard performance measures for local authorities.</p> <p>The measures were included in the District Council's 2015-25 long term plan, and must be reported against in the 2017 annual report.</p> | <p>We will review the systems in place for capturing information used to reporting on the performance measures.</p> <p>We will follow up our prior year recommendations. If we find issues with the systems and/or processes, we will advise you.</p> <p>We will also review the District Council's performance reporting in its annual report and form a view on whether the District Council's performance information fairly reflects the actual performance of the District Council for the year.</p> |

We will also follow up on progress made by the District Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

3 Matters of particular interest to the Auditor-General

The Office of the Auditor-General (OAG) completes a work programme with an annual theme.

The 2017/18 OAG area of interest or theme is “Water”. This is of special interest as it is a significant natural resource that New Zealanders rely on, for long-term health, economic, environmental, social and cultural well-being. The OAG’s Water theme allows the OAG to provide an independent view on the extent to which this is happening and the opportunities and risks arising.

Potential topics being considered include:

- providing safe and reliable drinking water;
- improving the quality of our rivers, lakes and other water bodies;
- dealing with competing demands for a limited resource – water demand management approaches and allocation;
- addressing the effect of climate change – flood risk, sea level rise, and drought; and
- managing the coastal and marine environment – for example aquaculture, managing the Exclusive Economic Zone, and planning for and managing climate change effects on coastal areas.

We will keep you informed if there are any areas of work for us to specifically cover during our audit as part of this theme.

4 Logistics

4.1 Our audit team

The Audit New Zealand staff involved in the audit are:

| | |
|-----------------|-----------------------------|
| Debbie Perera | Director |
| Fiona Elkington | Audit Manager |
| Yui-Teng Chan | Audit Supervisor |
| Robyn Dearlove | Information Systems Auditor |
| Jason Biggins | Tax Director |

4.2 Important dates in the audit process

Our proposed timetable is:

| | Date |
|--|---------------|
| Interim audit begins | 27 March 2017 |
| ISSA review | 18 May 2017 |
| Second interim audit begins | 12 June 2017 |
| Draft interim management report issued | 26 June 2017 |

| | Date |
|---|-------------------|
| Draft financial statements available for audit ¹ | 28 August 2017 |
| Final audit begins | 04 September 2017 |
| Final financial statements available ² for audit | 20 September 2017 |
| Annual report ³ available for audit | 20 September 2017 |
| Verbal audit clearance given | 26 September 2017 |
| Audit opinion issued | 28 September 2017 |
| Draft final detailed management report issued | 8 October 2017 |

4.3 Our interim audit visit

We carried out the first interim audit during March 2017. During this visit, we focused on updating our understanding of the District Council's internal control. This included reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. We will use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit.

We have scheduled a second interim audit in June 2017. The purpose of this visit is to bring forward as much work that we would normally perform in the final audit visit.

4.4 Our final audit visit

Our final audit is scheduled to start on 4th September 2017 and is expected to last two weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

4.5 Professional fees

Our audit fee estimate for the year ending 30 June 2017 will be agreed as part of our Audit Proposal Letter (see draft dated 2 June 2017).

The fee is an estimate and assumes that the expectations discussed in Appendix 1 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

To ensure we can complete the audit within the proposed time frame (see section 4.2) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you. To help you prepare for the audit, a schedule of the information that we will need for the audit is included in Appendix 2.

¹ Financial statements (including notes to the financial statements) with actual year-end figures.

² Financial statements incorporating all the amendments agreed to between District Council and Audit New Zealand.

³ Annual report, including any Mayor's and Chief Executive's overview or reports.

Appendix 1: Additional information about the audit

Our reporting protocols

Management reports

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

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the District Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the District Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the District Council's governing body that specify the reasons why the corrections will not be made.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the District Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the District Council's website.

How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the District Council's financial statements or general accountability. Our audit does not cover all of the District Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.

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Appendix 2: Information we will need

In the table below we have listed the information that we will need during the audit. It would be helpful if you could record in the table who will take responsibility for preparing this information and when you expect it to be available. This will help us to plan the audit.

| Information we will need | Who is responsible | Date available |
|---|--------------------|----------------|
| Pro-forma financial statements | | |
| Financial statements (including the Statement of Service Performance) with last year's comparatives and the budget figures and performance measures in the proposed reporting format. | | |
| Draft financial statements | | |
| A complete set of financial statements with all balances that agree to supporting "leadsheets". These should include the accounting policies, a Statement of Comprehensive Income, a Balance Sheet, a Statement of Cash Flows, and the notes to the accounts. A draft Statement of Service Performance. | | |
| Final draft financial statements | | |
| Financial statements incorporating all the amendments agreed to between the Rangitikei District Council and Audit New Zealand. | | |
| Annual report | | |
| Annual report, including the Mayor's and Chief Executive's overview or reports. | | |
| General information | | |
| Supporting schedules for all balances with figures for the current year, budget and last year, along with the dollar and percentage movement. Explanations for variances $\pm 10\%$ or \$120,000. Supporting schedules that agree to the general ledger and to the financial statements, with supporting documentation for any adjustments between the general ledger and the financial statements. Additional, more detailed, supporting schedules where balances are made up of a number of GL accounts providing the applicable GL code. This should clearly show which ledger account codes combine to form each individual figure in the financial statements. | | |
| Workpapers clearly documenting how the figures in the Statement of Cash Flows were calculated. | | |

| Information we will need | Who is responsible | Date available |
|---|--------------------|----------------|
| Reconciliation of all figures in the Statement of Cash Flows back to the Income Statement and Balance Sheet and supporting schedules. Copy of the trial balance. | | |
| Minutes Council and sub-committee minutes for the year ending 30 June 2017 and all subsequent minutes up to the date the audit opinion is signed. | | |
| Journals Listing of all journals entries for the year. | | |
| Cost allocation Supporting schedule showing total expenditure by activity. Report showing allocation of costs to each activity. Description of methodology used for allocating costs to the activities. Details of any changes to cost drivers or "pre-determined rates": <ul style="list-style-type: none"> • between this year and last year; and • during this year. | | |
| Cash and bank List of all bank accounts and bank numbers. List of authorised cheque signatories as issued to the banks identified above. Bank account reconciliations to 30 June 2017 including: <ul style="list-style-type: none"> • schedule of unpresented cheques and/or unprocessed direct payments; • schedule of deposits in transit; and • schedule of any other unreconciled items and an explanation of how they have been accounted for.. Confirmation of any other bank arrangements. | | |
| Details of last cheque issued and last deposit made for the year. | | |
| Details of the first cheque issued and first deposit made for the new financial year. Approved banking policies. All bank statements from the start of the financial year until the date of the audit. | | |
| Debtors Debtors listing, reflecting gross receivable and ageing. | | |

| Information we will need | Who is responsible | Date available |
|--|--------------------|----------------|
| <p>Sundry debtors accrual schedule.</p> <p>Reconciliation of debtors listing to general ledger.</p> <p>Details of provision for doubtful debts calculation.</p> <p>Schedule of all debtors written off during the period.</p> <p>Debtor account reconciliations for the year to 30 June 2017.</p> | | |
| <p>Prepayments</p> <p>Listing of all year-end prepayments.</p> | | |
| <p>Property, plant and equipment (including infrastructure)</p> <p>Fixed asset register.</p> <p>Details of asset maintenance and management plans.</p> <p>Movement reconciliation for the year outlining additions, disposals, and depreciation.</p> <p>Supporting documentation for additions/disposals and write-off of any assets.</p> <p>Reconciliation of fixed asset register to the general ledger.</p> <p>Schedule of capital work in progress at 30 June 2017 and an indication of when each asset is likely to start accruing benefits and when it is likely to be operational.</p> | | |
| <p>Asset revaluations</p> <p>Names and addresses of all valuers used.</p> <p>Copies of any valuation reports.</p> <p>All journal entries posted to account for any revaluation.</p> | | |
| <p>Creditors and accruals</p> <p>Complete listing of accruals as at 30 June 2017.</p> <p>Supporting documentation for all accruals over \$120,000.</p> <p>Reconciliation of creditors control to the general ledger.</p> | | |
| <p>Suspense accounts</p> <p>Reconciliation of all suspense accounts.</p> | | |
| <p>Equity</p> <p>Supporting documentation for any movement in equity not attributable to the net surplus or deficit.</p> | | |
| <p>Commitments</p> <p>Schedule of commitments at 30 June 2017.</p> <p>Supporting documentation for all commitments.</p> | | |

| Information we will need | Who is responsible | Date available |
|--|--------------------|----------------|
| Contingencies Schedule of all contingencies and guarantees at 30 June 2017. Supporting documentation for all individual items. Names and addresses of all solicitors/barristers used by the Rangitikei District Council and descriptions of matters and estimates of the financial settlement. (A legal letter template to be provided by us.) | | |
| Tax GST returns to 30 June 2017. A reconciliation of the balance of GST payable in the general ledger to the last GST return. The current year tax calculation, deferred tax proof, and supporting work papers The latest IRD statement of account for income tax (if any). All tax advice, binding ruling applications, tax compliance reports, and IRD correspondence. | | |
| Revenue A reconciliation of general ledger to financial statements. Explanations for variances greater than 10% and \$120,000 when the figure is compared to the previous year and budget. | | |
| Expenditure A reconciliation of general ledger to the financial statements. A reconciliation of lease/rental charges to lease agreements. | | |
| A listing of the fees paid and/or payable to each member of the Council for the year. A listing of expenses incurred by, or on behalf of, Council members during the year (by member). For all general ledger balances, a comparison (with explanations of variances greater than \$120,000 or 10%.) of the actual expenditure for this year against: <ul style="list-style-type: none"> the budget for this year; and actual for the previous year. | | |
| Payroll A reconciliation of the payroll system and the general ledger for the year. Breakdown of the financial statements figure into the various ledger balances. | | |

| Information we will need | Who is responsible | Date available |
|---|--------------------|----------------|
| <p>Schedule of any major changes and effective date, for example, wage increases since the last audit.</p> <p>Listing, generated from the payroll system, of new employees and employees who have left, and all performance, redundancy and severance payments.</p> <p>Schedules/workpapers supporting annual, retirement, and long service leave accruals (reconciled to the general ledger and the financial statements).</p> | | |
| <p>Service performance reporting</p> <p>Evidence to support the reported results for each performance target in the Statement of Service Performance.</p> <p>Explanations for significant variances by group of activity.</p> | | |
| <p>Compliance with statutory authority</p> <p>Details of the compliance systems and any changes since the last audit.</p> | | |

2 June 2017

31 Amesbury Street
PO Box 149, Palmerston North 4440
Phone: 04 496 3099

Andy Watson
Mayor
Rangitikei District Council
Private Bag 1102
Marton 4741

Dear Andy

Audit engagement letter

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all "public entities", including Rangitikei District Council, under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Debbie Perera, using the staff and resources of Audit New Zealand, under section 32 and 33 of the Act, to carry out the annual audits of the Rangitikei District Council's financial statements and performance information. We will be carrying out these annual audits on the Auditor-General's behalf, for the years ending 30 June 2017 to 30 June 2019.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Council and me, as the Appointed Auditor, for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the Rangitikei District Council's financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit (typically those matters will relate to issues of financial management and accountability).

We will carry out the audit 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 New Zealand Auditing and Assurance Standards Board (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether the Rangitikei District Council's financial statements and performance information are free from material

misstatement. The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

Your responsibilities

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- providing us with:
 - access to all information relevant to preparing the financial statements and performance information such as records, documentation, and other information;
 - all other information, in addition to the financial statements and performance information, to be included in the annual report;
 - additional information that we may request from the Rangitikei District Council for the purpose of the audit;
 - unrestricted access to Council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

In addition, the Rangitikei District Council is responsible:

- for the preparation of the summary financial statements and summary performance information;
- for making the audited summary financial statements and summary performance information readily available to the intended users of that information; and
- for including our audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that we have reported on that information.

The Council's responsibilities extend to all resources, activities, and entities under its control. We expect that the Council will ensure:

- the resources, activities, and entities under its control have been operating effectively and efficiently;

- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;
- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the Council and/or the individuals within the Rangitikei District Council with delegated authority, to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred – regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The Council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Appendix 1. Appendix 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the Council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

The Council should have documented policies and procedures to support its responsibilities. It should also regularly monitor performance against its objectives.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether the financial statements of the Rangitikei District Council:

- present fairly, in all material respects:
 - its financial position; and
 - its financial performance and cash flows for the financial year;
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.

We are also responsible for forming an independent opinion on whether the performance information of Rangitikei District Council:

- presents fairly, in all material respects, the performance for the financial year, including:
 - its performance achievements as compared with forecasts included in the Long Term Plan or Annual Plan for the financial year; and

- its actual revenue and expenses as compared with the forecasts included in the Long Term Plan or Annual Plan for the financial year. and
- complies with generally accepted accounting practice in New Zealand.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rangitikei District Council's internal controls. However, we will communicate to you in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the Council and the Rangitikei District Council have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the Council obtained and applied the resources of the Rangitikei District Council in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the Council and the Rangitikei District Council have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of a lack of financial prudence.

Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of Rangitikei District Council; including being independent of management personnel and members of the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with the objectivity of the audit team and the Audit New Zealand.

To protect our independence, specific limitations are placed on us in accepting engagements with the Council other than the annual audit. We may accept certain types

of other engagements, subject to the requirements of the Auditing Standards. Any other engagements must be the subject of a separate written arrangement between the Council and me or Audit New Zealand.

Reporting

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee of the audit report.¹

We will also issue a management letter that will be sent to the Council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Council. Typically those matters will relate to issues of financial management and accountability. We may also provide other management letters to the Rangitikei District Council from time to time. We will inform the Council of any other management letters we have issued.

Please note that the Auditor-General may publicly report matters that are identified in the annual audit, in keeping with section 21 of the Public Audit Act 2001.

Next steps

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the letter in the space provided and returning a copy to me. The terms will remain effective until a new Audit Engagement Letter is issued.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible. If after contacting me you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

¹ If an audit report is going to be issued on the public entity's summary financial and performance information, then the following text should be included at the end of this paragraph:
"In addition, we will issue an audit report that will be attached to the summary financial statements [and summary performance information]. This audit report will contain an opinion that provides the same level of assurance as the audit report on the full financial statements [and full performance information]."

Yours sincerely

Debbie Perera
Director
On behalf of the Auditor-General

I acknowledge the terms of this engagement and that I have the required authority on behalf of the Council.

Signature:

Name: Andy Watson

Title: Mayor

Date:

Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor

| Responsibilities of the Council | Responsibility of the Appointed Auditor |
|---|--|
| Responsibilities for the financial statements and performance information | |
| <p>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</p> <p>You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p> | <p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> • present fairly, in all material respects: <ul style="list-style-type: none"> ◦ the financial position; and ◦ the financial performance and cash flows for the financial year; • comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards. <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> • presents fairly, in all material respects, the performance for the financial year, including: <ul style="list-style-type: none"> ◦ the performance achievements as compared with forecasts included in the statement of performance expectations for the financial year; and ◦ the actual revenue and expenses as compared with the forecasts included in the Long Term Plan or Annual Plan for the financial year. • complies with generally accepted accounting practice in New Zealand <p>We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements and performance information.</p> |

| Responsibilities of the Council | Responsibility of the Appointed Auditor |
|---------------------------------|--|
| | <p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence the audit report addressee's overall understanding of the financial statements and performance information.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for you to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> • the appropriateness of accounting policies used and whether they have been consistently applied; • the reasonableness of the significant accounting estimates and judgements made by those charged with governance; • the appropriateness of the content and measures in any performance information; • the adequacy of the disclosures in the financial statements and performance information; and • the overall presentation of the financial statements and performance information. <p>We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> • the adoption of the going concern basis of accounting is appropriate; • all material transactions have been recorded and are reflected in the financial statements and performance information; |

| Responsibilities of the Council | Responsibility of the Appointed Auditor |
|--|---|
| | <ul style="list-style-type: none"> • all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and • uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p> |
| Responsibilities for the accounting records | |
| <p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> • correctly record and explain the transactions of Rangitikei District Council; • enable you to monitor the resources, activities, and entities under your control; • enable the Rangitikei District Council's financial position to be determined with reasonable accuracy at any time; • enable you to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and • are in keeping with the requirements of the Commissioner of Inland Revenue. | <p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p> |

| Responsibilities of the Council | Responsibility of the Appointed Auditor |
|---|---|
| Responsibilities for accounting and internal control systems | |
| <p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of Rangitikei District Council), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and performance information reporting.</p> | <p>The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information.</p> <p>We will report to you separately, on any significant weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.</p> |
| Responsibilities for preventing and detecting fraud and error | |
| <p>The responsibility for the prevention and detection of fraud and error rests with you, through the implementation and continued operation of adequate internal control systems (appropriate to the size of Rangitikei District Council) supported by written policies and procedures.</p> <p>We expect you to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect you to consider reporting all instances of actual, suspected, or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect you to immediately inform us of any suspected fraud where you, and/or any individuals within the Rangitikei District Council with delegated authority have a reasonable basis that suspected fraud has occurred - regardless of the amount involved.</p> | <p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> • obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and • report to you any significant weaknesses in internal control that come to our notice. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected, or alleged fraud.</p> <p>As part of the audit, you will be asked for written confirmation that you have disclosed all known instances of actual, suspected, or alleged fraud to us.</p> <p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from you, or management, or by any other means, we will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report the fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so, if it is appropriate for the purposes of protecting the interests of the public.</p> |

| Responsibilities of the Council | Responsibility of the Appointed Auditor |
|--|--|
| Responsibilities for compliance with laws and regulations | |
| <p>You are responsible for ensuring that Rangitikei District Council has systems, policies, and procedures (appropriate to the size of Rangitikei District Council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of Rangitikei District Council are complied with. Such systems, policies, and procedures should be documented.</p> | <p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> • the relevance of the law or regulation to the audit; • our assessment of the risk of non-compliance; • the impact of non-compliance for the addressee of the audit report <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws and regulations.</p> |
| Responsibilities to establish and maintain appropriate standards of conduct and personal integrity | |
| <p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a "Code of Conduct" and, where applicable, support the "Code of Conduct" with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted "Codes of Conduct" that apply to the public sector.</p> | <p>We will have regard to whether you maintain high standards of conduct and personal integrity – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of Rangitikei District Council may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to you and to the Auditor-General all significant departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p> <p>The Auditor-General, on receiving a report from us, may, at his discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p> |

| Responsibilities of the Council | Responsibility of the Appointed Auditor |
|---|---|
| Responsibilities for conflicts of interest and related parties | |
| <p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p> | <p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions. Depending on the circumstances, we may enquire whether you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p> |
| Responsibilities for publishing the audited financial statements on a website | |
| <p>You are responsible for the electronic presentation of the financial statements and performance information on the public entity's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If the audit report is reproduced in any medium, you should present the complete financial statements, including notes, accounting policies, and any other accountability statements.</p> | <p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on your website is beyond the scope of the annual audit.</p> |

Appendix 2: Health and safety of audit staff

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015 we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a work environment for our audit staff that is without risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

DRAFT

31 Amesbury Street
PO Box 149, Palmerston North 4440
Phone: 04 496 3099

2 June 2017

Ref.: EN/LCA/03-0030

Andy Watson
Mayor
Rangitikei District Council
Private Bag 1102
Marton 4741

Copy: Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington

Dear Andy

Proposal to conduct the audit of Rangitikei District Council and subsidiaries on behalf of the Auditor-General for the 2017, 2018 and 2019 financial years

1 Introduction

The Auditor-General has appointed me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the three financial years ending 30 June 2017, 2018 and 2019. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial years ending 30 June 2017, 2018 and 2019 and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

2 Statutory basis for the audit and how audit fees are set

The audit of your organisation is carried out under Section 15 of the Public Audit Act 2001, which states that “the Auditor-General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited”.

Fees for audits of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, your council and I have the opportunity to reach agreement first and recommend those fees for approval. The Auditor-General, with assistance from the OAG, will set audit fees directly only if we fail to reach agreement.

Our proposed audit fees are set out in this letter and include an estimate of the reasonable cost of disbursements (including travel and accommodation where necessary).

3 Entities covered by this proposal

This proposal covers the audit of Rangitikei District Council.

4 Key members of the audit team

Appointed Auditor
Audit Manager

Debbie Perera
Fiona Elkington

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audits (compared to budgeted and actual data from the previous financial year):

| Audit team member | 2016 budget | 2016 actual | 2017 | 2018 | 2019 |
|-------------------------------|-------------|-------------|------------|------------|------------|
| Appointed Auditor | 43 | 114 | 65 | 65 | 65 |
| Review Director | 0 | 0 | 0 | 0 | 0 |
| Audit Manager | 93 | 97 | 93 | 93 | 93 |
| CA Qualified staff | 200 | 396 | 200 | 200 | 200 |
| Non CA qualified staff | 280 | 268 | 320 | 320 | 320 |
| Other Specialists | | | | | |
| Sector specialist support | 8 | 7 | 7 | 7 | 7 |
| Information Systems | 20 | 23 | 20 | 20 | 20 |
| Specialist Assurance Services | 0 | 11 | 0 | 0 | 0 |
| Tax | 1 | 1 | 1 | 1 | 1 |
| Total audit hours | 645 | 917 | 706 | 706 | 706 |

5.1 Reasons for changes in audit hours

The major reasons for the changes in hours for your organisation's audit are:

| Reasons for increased or decreased audit hours compared to previous period <u>budgeted</u> hours: | 2017 | 2018 | 2019 |
|---|-----------|----------|----------|
| Changes to local government reporting obligations | 20 | - | - |
| Attending the Audit and Risk Subcommittee. | 12 | - | - |
| We have changed the hours and mix to better reflect the work we need to do on an on-going basis. | 29 | - | - |
| Total increase (decrease) in audit hours | 61 | - | - |

Changes to the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014 require additional reporting disclosures by councils and have come into effect since the last Audit Proposal Letter was negotiated. These additional disclosures have to be audited as part of the annual report.

6 Proposed audit fees

Our proposed fees for the next three audits (compared to budgeted and actual data from the previous financial year) are:

| Structure of audit fees | 2016 budget \$ | 2016 actual \$ | 2017 \$ | 2018 \$ | 2019 \$ |
|--|----------------------|----------------------|----------------|----------------|----------------|
| Net audit fee (excluding OAG overhead and disbursements) | 98,715 | 98,715 | 108,894 | 110,174 | 110,488 |
| OAG overhead charge | 9,417 | 9,417 | 10,006 | 10,124 | 10,244 |
| Total audit fee (excluding disbursements) | 108,132 | 108,132 | 118,900 | 120,298 | 121,732 |
| Estimated disbursements | 3,350 | 5,481 | 5,500 | 5,500 | 5,500 |
| Total billable audit fees and charges | 111,482 | 113,613 | 124,400 | 125,798 | 127,232 |
| GST | 16,722 | 17,042 | 18,660 | 18,870 | 19,085 |
| Total (including GST) | 128,204 | 130,655 | 143,060 | 144,668 | 146,317 |

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG overhead charge. We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

6.1 Reasons for changes in audit fees

The main changes in cost components for future audits are:

| Reasons for increased or decreased audit fees compared to previous period <i>budgeted</i> fees. | 2017 | 2018 | 2019 |
|--|---------------|--------------|--------------|
| Predicted increases in our costs | 3,138 | 1,398 | 1,434 |
| Attending the Audit and Risk Subcommittee | 4,980 | 0 | 0 |
| Changes to local government reporting obligations | 2,650 | 0 | 0 |
| We have changed the hours and mix to better reflect the work we need to do on an on-going basis. | 0 | 0 | 0 |
| Total increase (decrease) in audit fees | 10,768 | 1,398 | 1,434 |

7 Assumptions relating to our audit fee

Our proposed audit fees are based on the following assumptions:

- You will provide to us in a timely manner the complete information required by us to conduct the audit.
- Your staff will provide us with an appropriate level of assistance.
- Your organisation's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review before being submitted to us for audit.
- Your organisation's financial statements will include all relevant disclosures.
- We will review up to two sets of draft annual reports, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website).
- There are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us).
- There are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work.
- There are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above.
- There are no significant changes to the agreed audit arrangements (set out in an annual letter we will send you) that change the scope of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, we will discuss the issues with you and the OAG at the time.

8 What the OAG overhead charge provides

Parliament has indicated that it expects the full cost of annual audits under the Public Audit Act (including an OAG overhead charge) to be funded by public entities.

The OAG overhead charge partially funds a range of work that supports auditors and entities, including:

- development and maintenance of auditing standards;
- technical support for auditors on specific accounting and auditing issues;
- ongoing auditor training on specific public sector issues;
- preparation of sector briefs to ensure a consistent approach to annual audits;
- development and maintenance of strategic audit plans; and
- carrying out quality assurance reviews of all auditors, and their audits and staff on a regular (three-year) cycle.

Appointed Auditors are required to return the OAG overhead charge portion of the audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in the audit engagement agreement and schedules.

10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please do not hesitate to contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement

agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely

Debbie Perera
Director

I accept the audit fees for the audit of the three financial years as stated above.

Full name: Andy Watson Position: Mayor

Authorised signature: _____ Date: _____

Entity name: Rangitikei District Council

Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to: Debbie Perera
Audit New Zealand
PO Box 149
Palmerston North

Attachment 3



Rangitikei
UNSPOILT...

MEMORANDUM

TO: Audit/Risk Committee

TO Long-Term Plan Project Team

FROM: Michael Hodder

DATE: 1 June 2017

SUBJECT: **Risk Management Framework for the 2018-28 Long-Term Plan**

FILE: 1-LTP-4-5

The good practice guide *Jigsaw 2018 – Piecing it together*¹ issued by SOLGM in October 2016 notes that a project plan for developing the Long-Term Plan should identify the likely risks and threats to the programme and the means to mitigating these, including (for example) communication/media risks.

There are two distinct issues in managing risk during the development of the Long-Term Plan.

- a) Risk attached to achieving a successful Long-Term Plan (including an unmodified opinion from the Council's auditors), and
- b) Risk attached to the corporate assumptions.

I take these in turn.

- a) Risk attached to achieving a successful Long-Term Plan (including an unqualified opinion from the Council's auditors)**

The Council has adopted a risk management framework for the Council as a whole. Many of these risks could impact on the LTP project but the management of these risks (e.g. continuing business following a disaster) is outside the control of the Project Team. However, when considering a specific project like the LTP, some re-evaluation is needed for the organisation-wide assessment – for example, “proper consultation not followed” is an accepted risk for the organisation as a whole but cannot be accepted for a critical piece of consultation like the LTP.

¹ The SOLGM guide to preparing an integrated long-term plan under the Local Government Act 2002. This updates earlier guides prepared for the 2015-25 and 2012-22 Long Term Plan.

For the 2015-25 Long-Term Plan, the Project Team identified ten key risks. These remain relevant for the 2018-28 Long-Term Plan, but experience from the 2015-25 Long-Term Plan and sector recommended good practice means some changes.

There have been no legislative changes relating to long-term plans in the past three years, nor have there been changes to reporting standards². Not yet known is the Auditor-General's methodology for forming an opinion on long-term plans.

I set out my assessment of the ten key risks, from highest to lowest:

- 1 Disconnect between asset information data and activity management plans and budget information, in terms of completeness of data and accuracy of information.

Present likelihood of risk – almost certain; impact of risk - moderate³

Accept risk No

Mitigation

There has been significant work in updating the assets management plans (with more to come), and roading has been revised to reflect New Zealand Transport Agency requirements. However, early assessment is needed (by end of July) on three factors:

- a. the reliability of the data;
- b. the linkage between AssetFinda and MagiQ in terms of capital/renewal costs, with corrective action in place by end of September (so that the budget projections for the Long term Plan are robust); and
- c. the methodology used to assess the validity of the renewal/replacement projections from AssetFinda when preparing work programmes.

- 2 Failure to give effect to the statutory purpose of a long-term plan⁴ with the likelihood of a qualified opinion from the auditors if that is not evident.

² Local Government (Financial Reporting and Prudence) Regulations 2014. The External Reporting Board's proposed service reporting standard (consulted on during 2016) has yet to be finalised.

³ This refers to the potential to receive an adverse audit opinion.

⁴ Local Government Act 2002: section 93(6) The purpose of a long-term plan is to—

(a) describe the activities of the local authority; and
(b) describe the community outcomes of the local authority's district or region; and
(c) provide integrated decision-making and co-ordination of the resources of the local authority; and
(d) provide a long-term focus for the decisions and activities of the local authority; and
(e) provide a basis for accountability of the local authority to the community.

Section 94 specifies that the audit report must consider whether the plan *gives effect* to section 93(6). prior to the 2014 amendments the audit was required to consider ' the extent to which the local authority has complied with the *requirements* of this Act'

Present likelihood of risk – possible; impact of risk - moderate

Accept risk No

Mitigation

Develop checklist of how compliance with sections 93(6) (for the Long-Term Plan as a whole) and section 93B (for the Consultation Document) is to be demonstrated, including the content requirements of section 93C.

- 3 Failure of the budget model (or misunderstandings/mistakes in its application), leading to incomplete and/or inaccurate financial statements, with the likelihood of a qualified opinion from the auditors.

Present likelihood of risk – possible; impact of risk - moderate

Accept risk No

Mitigation

The new financial planning/modelling software used by a number of other councils should minimise this risk. However, there will need to be some random testing based on documented procedures. A back-up record on Excel will be maintained throughout the development of the Rangitikei Long-Term Plan.

- 4 Failure to articulate a ten-year vision in the plan (and the thirty-year planning horizon required by the infrastructure strategy), to describe real choices for the community, and to explicitly explain the implications of affordability – any one of which could lead to a qualification from the auditors.

Present likelihood of risk – possible; impact of risk - moderate

Accept risk No

Mitigation

The LTP project team to develop a checklist of pointers to avoiding this risk. For example, does the Long-Term Plan convey an idea of the differences in the District between now and 2025, how many choices are presented, what proportion of Council's total expenditure do they cover, potential rating impacts, debt ceilings, etc. Critical here is whether the Long-Term Plan has adequately covered the implications of the projected changes in population, and whether these are reflected in the infrastructure strategy.

- 5 Insufficient/confusing evidence of supporting documentation (asset management plans, activity management plans, draft policies, organisation-wide performance metadata, etc.) potentially leading to a qualification from the auditor because of inadequate quality of information.⁵

Present likelihood of risk – possible; impact of risk - moderate

Accept risk No

Mitigation

The LTP project team to develop templates for all inputs into the draft plan and Project Manager to ensure that these are being placed in SharePoint in agreed locations.

The actions and projects for the first three years to be described in sufficient detail ('what', 'where' and 'when') along with projected costs so that Elected Members and the wider community know what is intended to be done.

The performance framework will be reviewed, including the targets set for the mandatory measures.

- 6 Flawed or confused consultation process so the community considers there has been an inadequate opportunity to influence the adopted plan

Present likelihood of risk – unlikely; impact of risk - moderate

Accept risk No

Mitigation

Engagement plan to clarify the nature and timings of particular consultations, and these to be a focus of communication strategies and publicity through local newspapers and Rangitikei Line. Forum (potentially over two days) for key stakeholder groups to talk with Elected Members to be held by end of July 2017. A review of those Consultation Documents for the 2015-25 Long-Term Plan (and the associated consultation/engagement processes) which were top-placed in the SOLGM competition will be undertaken to reshape the 2018-28 Rangitikei Consultation Document.

⁵ Local Government Act 2002: section 93G and section 94(1).

- 7 Lack of buy-in by the Mayor and Councillors, potentially meaning that the adopted plan and the process in its development are regarded as largely irrelevant to Council's business.

Present likelihood of risk – unlikely; impact of risk - moderate

Accept risk No

Mitigation

The commitment by Elected Members to participate in monthly day-long non-public workshops during June-November 2017 provides opportunity to gain understanding of the process and buy-in for the priorities and programmes set out in the Consultation Document. The workshops will be summarised at the following Council meeting and any agreements reached formally confirmed by resolution.

- 8 Failure to adhere to the planned timelines for the project, potentially leading to late adoption of the plan, potentially leading to a qualification from the auditors;

Present likelihood of risk – possible; impact of risk - minor⁶

Accept risk No

Mitigation

The LTP Project Manager to monitor timelines closely and, where slippage of more than 5% occurs, review this formally with the Project Team and report to the Management Team with recommendations for remedying this.

- 9 Loss of document integrity, potentially meaning that substantial rework is necessary, with consequent extra costs and time to rectify

Present likelihood of risk – possible; impact of risk - minor

Accept risk No

Mitigation

The LTP Project Manager to ensure that the draft full Long Term Plan document (initially to be supporting information for the Consultation Document) is developed in separate sections. Information Management staff to enforce

⁶ This refers to the potential to receive a 'modified' audit opinion.

mandatory new minor version for every time the document is closed after editing.

- 10 Loss of staff expertise during the project, which could result in any or all of the failures noted above.

Present likelihood of risk – possible; impact of risk - minor

Accept risk Yes

The mitigation measures outlined for the nine risks above will address this one.

b) Risk attached to the corporate assumptions

Clause 17 of Schedule 10 of the Local Government Act requires:

Significant forecasting assumptions

A long-term plan must clearly identify—

(a) all the significant forecasting assumptions and risks underlying the financial estimates:

(b) without limiting the generality of paragraph (a), the following assumptions on which the financial estimates are based:

(i) the assumptions of the local authority concerning the useful life of significant assets; and

(ii) the assumptions of the local authority concerning sources of funds for the future replacement of significant assets:

(c) in any case where significant forecasting assumptions involve a high level of uncertainty,—

(i) the fact of that uncertainty; and

(ii) an estimate of the potential effects of that uncertainty on the financial estimates provided.

This is a particular instance of managing risk in the context of Council's long-term planning. The Long-Term Plan is grounded on a substantial body of evidence of performance in its facilities/assets and services. In addition, there must be assumptions about future performance and external factors which have the potential to influence this. So, it is important to examine evidence on the validity of the corporate assumptions made for the 2015-25 (updated in the draft 2017/18 Annual Plan), including the nature of the risk and level of uncertainty. This is a critical input

into the assumptions to underpin the 2018-28 Long-Term Plan, to be developed in a Council workshop – both substantively as methodologically. The auditors are likely to probe this process.

Recommendation

That the memorandum 'Risk Management Framework for the 2018-28 Long-Term Plan' be received.

Michael Hodder
Community & Regulatory Services Group Manager

Attachment 4

Understanding and addressing risks from natural hazards and other events – to derisk infrastructure and strengthen the resilience of our economic and social investments.

Low-frequency high-impact events, such as the Canterbury earthquakes and flooding due to extreme weather or sea level rise, pose both local and national risks that can undermine our social and economic goals. And with population and economic growth the impact of natural hazards and extreme events is further magnified.

Recent natural hazard events have shown how vulnerable our communities and economies are in the event of a disaster, with the Kaikoura earthquake, for example, exposing the vulnerability of our transport corridors. New Zealand needs to develop new frameworks and policy tools to both respond meaningfully to such events and reduce the community and economic risks.

As owners of a significant amount of infrastructure, with a total asset value of over \$120 billion, and as the agency responsible for mitigating hazards through land use planning, local government has a major role to play in achieving local, regional and national resilience. To ensure our infrastructure, economy and community are appropriately prepared we need to understand and be prepared to address potential risks - we need better emergency preparedness nationally and locally. The recent work that the Wellington region has undertaken with central government strengthening the resilience of its water supply is an example of this, however, given the substantial risk factors New Zealand faces we need a more strategic and comprehensive approach across the country.

< Global warming is expected to continue with greater extremes in the temperatures observed. >

LGNZ will work with councils and their elected members to ensure that their responsibilities under the new legislation are well understood and that they have access to guidelines and advice to fulfil those requirements.

LGNZ, with support from the Government, has prepared a business case for establishing a Local Government Risk Agency (LGRA). The establishment of the LGRA will increase capacity in local authorities for both understanding risk and developing a consistent standard of risk management.

LGNZ is committed to working with councils to increase awareness and understanding of the need to prepare for risk and resilience in relation to their infrastructure, land-use planning and leadership. We will also assist councils to increase community awareness about the threats posed by sea level rise and other climate change impacts. We will work to strengthen national frameworks and policies and will actively participate in the Government's review of New Zealand's civil defence and emergency management framework.

What LGNZ is looking for

LGNZ's focus for this policy priority is the establishment of the LGRA, the wide-spread implementation by councils of a risk based approach to decision-making and an effective collaboration between local and central government to strengthen the knowledge about risk throughout the public sectors.

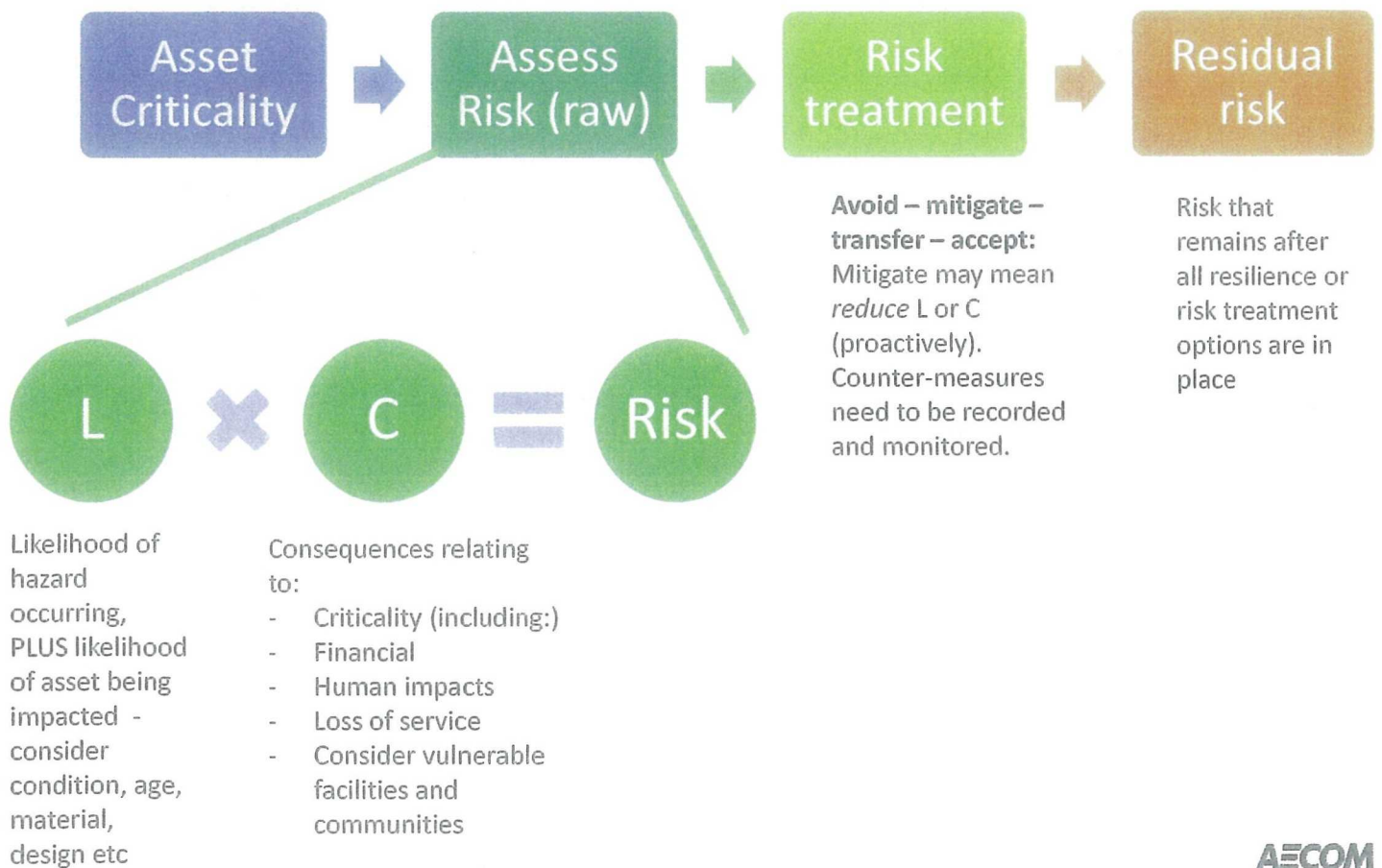
Date updated: 23 May 2017



Appendix A

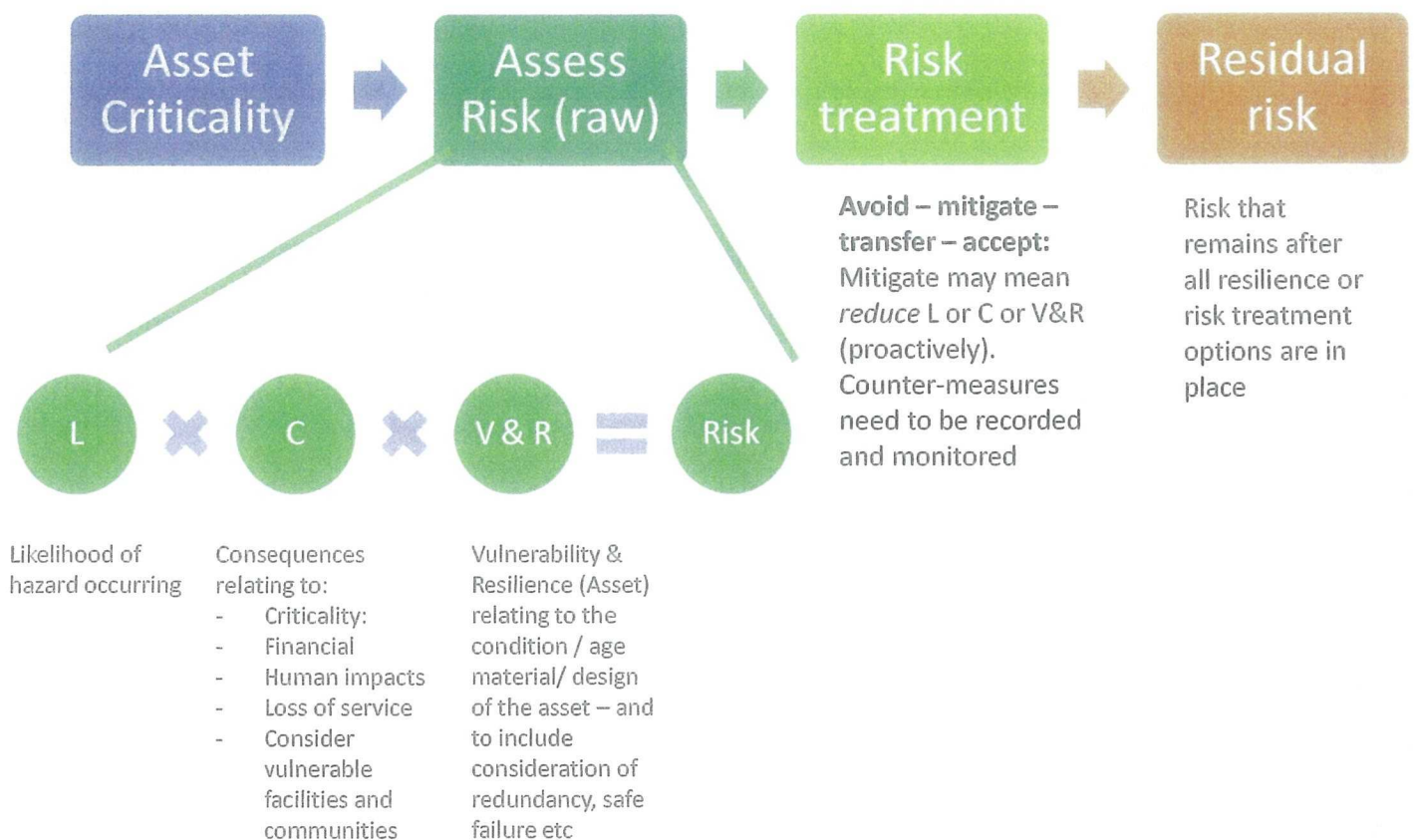
Risk models for
discussion

Model 1: Risk of hazard impacting assets

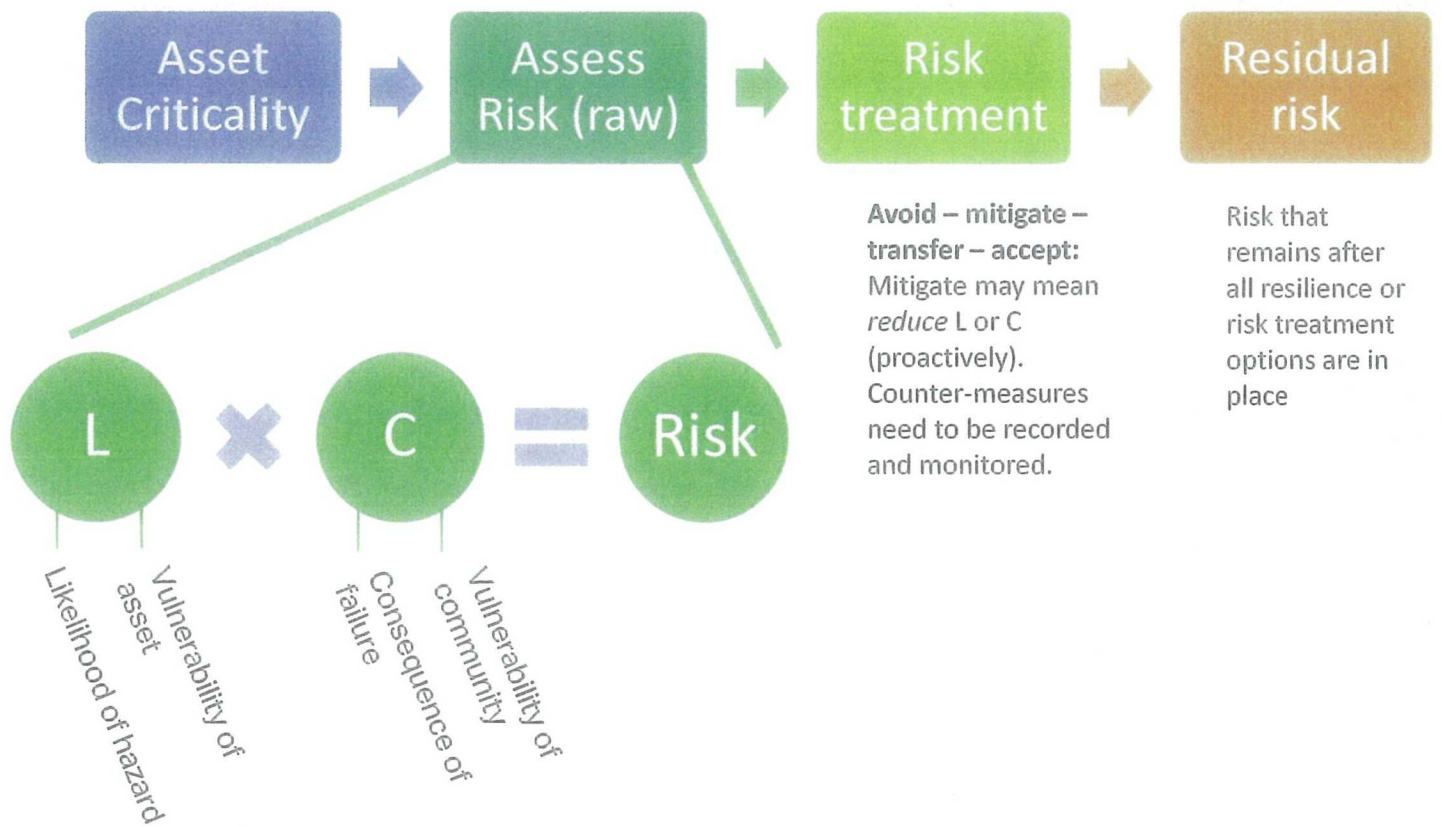


AECOM

Model 2: Risk of hazard impacting assets



Model 3: Risk of hazard impacting assets



Model 4: Risk of hazard impacting assets

