

Audit plan

Waikato District Council

For the year ending 30 June 2019

Audit plan

I am pleased to present our Audit Plan for the audit of Waikato District Council for the year ending 30 June 2019. The purpose of this audit plan is to discuss:

Areas of emphasis for the audit and our audit response.....	2
Group audit	5
Our audit process	6
Reporting protocols.....	10
Audit logistics	11
Expectations	13

The contents of this plan should provide a good basis for discussion when we meet with you.

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

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

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

Yours sincerely



Leon Pieterse
Appointed Auditor
4 March 2019

Areas of emphasis for the audit and our audit response

Focus areas



Based on the planning work and discussions that we have completed to date, we have identified the areas which we consider to be of audit emphasis. This includes business risks and issues facing the Waikato District Council (District Council) that may result in risks of material misstatement in the District Council’s financial statements and/or service performance reporting.

The table below sets out the 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.

Area of audit focus	Our audit response
Property, plant and equipment	
<p>In line with the accounting policies of the District Council, infrastructure assets, land and buildings are periodically revalued.</p> <p>PBE IPSAS 17 <i>Property, Plant and Equipment</i> requires that valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>For those asset classes that are not earmarked to be revalued this year, the District Council needs to perform a fair value assessment to determine if there is a material difference between their carrying amount and their fair value and whether a revaluation is required or not. It is important that this assessment is made at an early stage to avoid the risk of this becoming an issue at a late stage of the audit.</p>	<p>We understand the District Council intends to revalue infrastructure assets this year. For classes of assets subject to revaluation during the year we will:</p> <ul style="list-style-type: none"> • review the scope of the valuation performed and ensure it has been completed in accordance with the appropriate standards; • consider whether the entire asset class has been revalued; • make enquiries of the valuer regarding the assumptions used in the valuation and assess their suitability to undertake the valuation; and • review adjustments posted to the general ledger as part of the revaluation and related disclosures. <p>For classes of assets not subject to revaluation, we will review the District Council’s assessment of whether there is any material difference between the carrying value and fair value.</p>

Area of audit focus	Our audit response
Development contributions	
<p>Because of growth in the district, development contributions form a significant part of revenue and funding for capital projects. Total development contribution revenue was \$12.6 million in the 2017-18 financial year and \$8.5m during the 2016-17 financial year with a further increase expected for the 2018-19 financial year.</p>	<p>We will review the District Council’s controls to check that development contributions are charged in accordance with the development contribution policy.</p> <p>We will confirm that the use and application of development contribution funds are appropriate and correctly accounted for.</p>
“Three waters” management	
<p>As part of the 2018-28 Long Term Plan, the District Council established a Waters Governance Board. The Board will control all the “three waters” operations and service delivery, but the Council will retain ownership of the infrastructure and continue to provide the corporate support required. Watercare Services Limited (Watercare) will provide management services under a contract for supply.</p> <p>As a result of this change, we expect there to be an impact on the staffing levels in the Service Delivery group at the District Council.</p> <p>The District Council is also required to report against non-financial performance measures in the Annual Report. This includes measures for the three waters activities, the targets for which are set in the 2018-28 LTP. It is important for the District Council that adequate systems and processes are in place to record the data required for reporting purposes.</p>	<p>We will:</p> <ul style="list-style-type: none"> • follow-up the progress made to establish both the Board and the contract with Watercare; • gain an understanding of the impact of this change on staff at the District Council; and • make enquiries about the progress made implementing systems and processes at the District Council and Watercare, to enable non-financial performance reporting in future annual reports.
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and • evaluating any unusual or one-off transactions, including those with related parties.

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

Fraud risk

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

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

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

Our responsibility

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

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

The Auditor-General has published useful information on fraud that can be found at oag.govt.nz/reports/fraud-reports.

Group audit



The Waikato District Council Group comprises:

- Waikato District Council;
- Strada Corporation Limited; and
- Waikato District Community Wellbeing Trust.

Our auditor's report covers the Group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the Group. In designing our group audit approach, we considered the structure of the Group and identified the entities which are included in the Group financial statements. Each entity is referred to as a component. We have assessed the risks of material misstatement and have identified our approach for each component. We identified that the District Council is the only significant component in the Group.

For non-significant components, we will perform analytical procedures on the consolidated balances to identify unexpected movements.

Our audit process

Initial planning

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

Understand your business and environment

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

Assess audit risk

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

Evaluate internal controls

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

Finalise the audit approach

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

Gather audit evidence

During the final audit we will be auditing the balances, disclosures, and other information included in the District Council's financial statements and performance information.

Conclude and report

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

Enhancing year-end processes

The year-end financial statement close process and the preparation of the annual report requires a large number of resources to be committed to complete this effectively. This diverts the attention of your staff away from the current financial year and focuses them on past events. We want the audit process to run smoothly and we will work with management to achieve this by bringing forward the timing of some audit procedures.

Bringing forward audit procedures

Substantive audit procedures are traditionally performed after the year-end. Where possible, we will aim to commence some audit procedures earlier in the year. We will focus on:

- testing sensitive expenditure items;
- reviewing the fair value assessment of non-revalued assets;
- testing property, plant and equipment additions and disposals; and
- testing bonus, severance, retirement and redundancy payments.

Completion of this testing earlier in the year should allow for more timely identification and resolution of errors. This testing will be completed during the interim audits. If we can complete this work earlier in the year, we expect this to reduce the final audit onsite work.

We will also discuss with management to determine if there are any other audit procedures that can be brought forward to the interim audits.

Materiality

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

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

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

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

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

Misstatements

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

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

Professional judgement and professional scepticism

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

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

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

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

How we consider compliance with laws and regulations

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

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

Wider public sector considerations

A public sector audit also examines whether:

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

Reporting protocols

Communication with management and the Council



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

Reports to Council



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

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

Audit logistics

Our team



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

Our senior audit team members are:

Leon Pieterse	Appointed Auditor
Jo Smail	Engagement Quality Control Review Director
Maree Procter	Audit Manager
Jaimala Singh	Assistant Manager
Robyn Dearlove	Information Systems Auditor

The Engagement Quality Control Review (EQCR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQCR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQCR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

Timetable



Our proposed timetable is:

First interim audit begins	1 April 2019
Second interim audit begins	15 April 2019
Draft interim report to Council issued	6 May 2019
Management comments received on draft interim report	20 May 2019
Final interim report issued (including management comments)	23 May 2019
Draft annual report and summary annual report available for audit	21 August 2019
Final audit begins	26 August 2019
Updated annual report and summary annual report available, incorporating all the amendments agreed to between us	16 September 2019
Verbal audit clearance given	25 September 2019
Draft management report to Council issued	25 September 2019
Management comments received on the management report	4 October 2019
Adoption of the Annual Report and Audit Report issued	7 October 2019
Final management report to Council issued	7 October 2019

Expectations



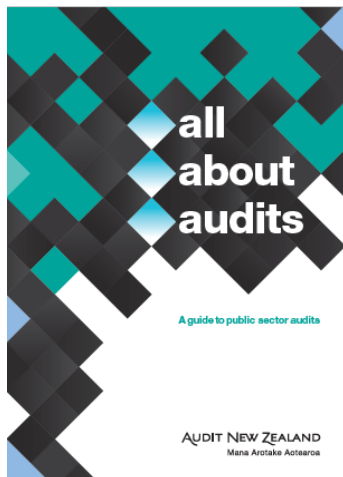
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

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



Health and safety



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

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

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

AUDIT NEW ZEALAND

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