

Audit plan

Taupō District Council

For the year ending 30 June 2018

Audit plan

I am pleased to present the arrangements for the audit of the Taupō District Council for the year ending 30 June 2018. The purpose of this audit plan is to discuss:

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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.

We are committed to delivering a high-quality audit. Our audit is risk based, which means that we focus on the areas that matter. Every member of the audit team will contribute to achieving the highest standard of professional excellence.

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

Yours sincerely



Clarence Susan
Director
6 April 2018

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, this table sets out the main audit risks and issues.

Audit risk/issue	Our audit response
Revaluation of assets	
<p>The District Council periodically revalues its infrastructure assets and operational land and buildings tri-annually on a cyclical basis. 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>The Council needs to formally review whether a revaluation is needed this year for the asset classes that it is not proposing to revalue. It is important that you make this assessment at an early stage, to avoid the risk of this becoming a significant issue at a late stage of the audit.</p> <p>We understand that the District Council is intending to revalue its three waters assets in the current year.</p>	<p>We will review the District Council's procedures and controls to ensure completeness of the assets being valued and that the accounting standards (PBE IPSAS 17) are complied with.</p> <p>We will make enquiries of management regarding the District Council's processes and assessment of the fair values of all asset classes.</p> <p>For asset classes that are not being revalued, we will review the District Council's assessment of whether there is any significant difference between the carrying amount and fair value of these assets.</p> <p>We will review the scope of the valuation, the competence of the valuer and the reasonableness of assumptions underlying the valuation. We will also seek assurances from the valuer that the valuation has been completed in accordance with the valuation and accounting standards.</p>
Council building procurement process	
<p>Council is currently reviewing options for a new Council Building, following the identification of asbestos in 2017 and demolition of the old Council building in February 2018.</p> <p>Given the size and nature of the project, it is important to ensure best practice is applied to the procurement process.</p>	<p>We will make ongoing enquiries and remain abreast of this project.</p> <p>We will ensure any costs capitalised meet the definition of capital expenditure.</p> <p>We will make enquiries of the procurement process as part of our standard audit procedures.</p>

Audit risk/issue	Our audit response
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 governing body (i.e. 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.

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 you, 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 (interim audit)

During the interim audit, we update our understanding of internal control. This includes reviewing the control environment, risk assessment processes, and relevant aspects of information systems controls.

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 (final audit)

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.

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 the Mayor and Chief Executive, in the usual year-end representation letter, 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 District Council or by one or more of its Councillors or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the District Council or by one or more of its Councillors 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 the Council



We will provide a draft of all reports to the 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 senior audit team members are:

Clarence Susan	Director
Stephen Lucy	Engagement Quality Control Director
Naude Kotze	Audit Manager
Liz Tombleson	Audit Assistant Manager
Robyn Dearlove	Manager IS Audit & Assurance

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.

Timetable



Our proposed timetable is:

9 April 2018	Interim audit begins – week one
28 May 2018	Interim audit begins – week two
29 June 2018	Draft interim management report issued
10 July 2018	Final interim management report issued with management comments
24 August 2018	Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures
27 August 2018	Final audit begins
10 September 2018	Final financial statements available, incorporating all the amendments agreed to between us
14 September 2018	Annual report available, including any Chair’s and Chief Executive’s overview or reports
18 September 2018	Verbal audit clearance given
25 September 2018	Audit opinion issued
21 September 2018	Draft final management report issued
11 October 2018	Final management report issued with management comments

Expectations



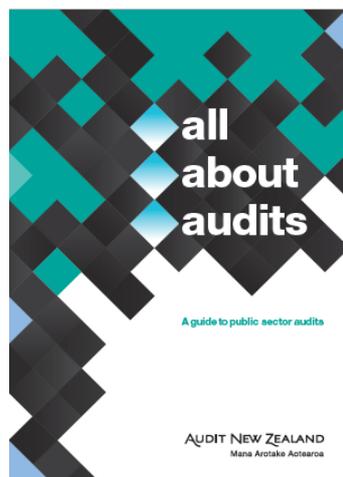
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter dated 20 April 2017.

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 our audit staff with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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