



*Tabled at
Audit of Risk Committee
24 September 2019*

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To David Ogilvie, Chair of Audit and Risk Committee, Tasman District Council

cc Mike Drummond, Corporate services Manager

Matt McGlinchey, Finance Manager

Charlotte Thomas, Financial Accountant

From John Mackey, Audit New Zealand

Subject **Update on progress of the audit**

Dear David

As we undertook to do, we provide you with an update on the progress of the audit up to 20 September 2019, and advice on key issues that need to be addressed.

1 Overall status summary

1.1 Work completed

The key issues, identified in the Audit Plan, which we have addressed, are summarised in section 2.

There are no significant unresolved issues for the Council's financial statements for the year ended 30 June 2019.

1.2 Work still to complete

The key work that is to be completed includes:

- Performance information especially for the '3 Waters'
- Statement of cash flows
- Tax
- Financial prudence disclosures
- Mayoral Relief Fund – Lotteries commission funded grants

2 Findings on areas of audit focus in Audit Plan

2.1 Waimea Water Limited

This is the first year when Waimea Water Limited (WWL) is accounted for in the Council's financial statements.

The audit of WWL was completed on 12 September 2019 and an unqualified audit opinion was issued.

We are comfortable that the accounting for WWL is materially correct in the Council's financial statements.

2.2 Fair value assessment and impairment of the assets

We reviewed management's assessment of the estimated increase in value of property, plant and equipment (PPE) calculated using increases in the capital goods indices for the second quarter of 2019. The calculated total increase in the value of PPE is lower than our audit planning materiality. The impact on depreciation is also below our materiality. Therefore, we agreed with management that a full revaluation of the assets was not required for the year ended 30 June 2019.

We reviewed management's impairment assessment and were satisfied that there was no material impairment as at 30 June 2019.

2.3 Pre WWL costs incurred

During the 2018/19 financial year, the Council received reimbursement for \$6.3 million of costs incurred in prior years for the Waimea Dam project.

The Council had only capitalised \$1.895 million of these costs at 30 June 2018, most of which related to the acquisition of land for construction of the Dam.

Management's assessment was that the residual \$4.4 million, which could not be recognised as an asset at 30 June 2018 because there were no agreements in place to base a recovery on, should be shown as other revenue in the Council's 2018/19 financial statements.

2.4 February Fires

We confirmed that revenue in advance of \$0.8 million, for Lotteries Commission unspent Mayoral Fund Relief funds, is correctly recognised as a liability.

We are completing the testing of the funds distributed to applicants up to 30 June 2019 but no issues have been identified to date.

2.5 Forestry valuation

We have not identified any irregularities with rates. However, our work has not been fully completed.

Log prices, as at 30 June 2019, were lower than in previous years. The prices also continued to drop after the balance sheet date. However, the valuation of the forestry assets increased by \$3 million. One of the reasons was that the valuer used three yearly average prices instead of the prices as at 30 June 2019.

The management of the forests is performed by PF Olsen with a yearly fee of approximately \$120,000. The Council also engages PF Olsen to perform the annual valuation of its forestry assets for a fee of \$7,000. Performing management and valuation services by the same entity poses an independency risk.

Given the Council sells most of its logs into the local market rather than the export market, we have accepted the valuation.

However, we propose to request specific confirmation from the Council, to be included in the representation letter, that management assesses the risk that the fair value is inaccurate, due to independence of the valuer, is low, and that it is appropriate to use the 3-year average log prices in the valuation of its forestry assets.

2.6 Rates

We have not identified any irregularities with rates. However, our work has not been fully completed.

2.7 Management override of controls

Based on the work performed to date, we found no indications of management override that would result in a material misstatement in the financial statements due to fraud.

3 Other matters identified during the audit

3.1 Monitoring of resource consents granted to Council

One of the mandatory measures, included in statement of service performance, is compliance with resource consents for discharges from wastewater systems. This is measured by the number of abatement notices, infringement notices, enforcement orders and convictions received for those resource consents. The Council, as a unitary local authority, issues resource consents for discharges from wastewater systems owned and/or operated by the Council.

We note that the Annual Compliance and Enforcement Report is prepared by environmental team and presented to the Council. The Report includes the results of compliance with resource consents by wastewater treatment plants. The environmental

team advise that its monitoring of the resource consents, issued to the Council, does not differ from monitoring for other resource consent holders.

We recommend that the Council reviews the monitoring processes for consents, where the Council is the consent holder, for appropriate management of any risk of bias due to self-review issues.

3.2 Identified corrected errors

Auditing standards require us to communicate, to those charged with governance, misstatements identified and corrected during the audit other than those which are clearly trivial. We identified error in valuation of interest rate swap contracts. The error was a result of an incorrect date entered into the valuation tool and resulted in a \$0.85 million overstatement of financial liabilities. The misstatement was corrected by the management.

Please contact us if you have any questions or concerns.

Regards

John Mackey

Director

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