

**From:** [BDC Lgoima](#)  
**To:** [REDACTED]  
**Subject:** Official Information Request for EY Audit Plan 2021-22 Ref: 092/22  
**Date:** Wednesday, 1 February 2023 4:28:00 pm  
**Attachments:** [image006.png](#)  
[22 A018 FY22 Buller DC Audit Plan.pdf](#)

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Dear [REDACTED]

We refer to your official information request dated 23 December 202 for EY Audit Plan 2021-22

The information you have requested is marked in red below:

1. A copy of the Ernst & Young audit plan provided to BDC in relation to the 2021-22 external audit – The final version of the audit plan was received from EY on 12 July 2022 for the 30 June 2022 Annual report. That plan is attached. Please note that this plan will be reported to the council meeting in February/March as part of the completion of the Annual Report process.
2. The reason why the Plan was not discussed at any full Council or FRAC meetings during the period May - September 2022 (inclusive). I believe the staff who would have reported the plan when received did not realise that it is best practice to do so. Both senior staff who would have done the reporting of the plan to the council are no longer working for us. I should note that some councils will consider that a plan such as this is one for management to respond to and report against. As the Buller District Council Chief Financial Officer I agree that the plan should have been reported to the council and/or FRAC during the period you note as that is best practice. The delay is not ideal but when reported will still provide an appropriate reporting /monitoring opportunity for the council. The reporting opportunity will allow councillors to discuss the plan, and any matters arising from the plan implementation with council management staff and the auditors, Ernst & Young.
  1. For sake of clarity, FRAC lists external audit under "Purpose" and "Terms of Reference"
  2. The audit engagement/plan document is an integral part of the external audit process. This is especially so considering EY were conducting the audit for the first time on behalf of Audit NZ. Parts 1 & 2 above are statements from yourself which I accept. Please note that part of your statement here has an error in that EY undertake the audit on behalf of the Office of the Auditor General, not Audit NZ.
3. The basis of communicating to both the then Mayor and/or the then FRAC Chair why the audit Plan would not be discussed at council or committee level, eg meeting minutes. I have enquired with the Mayor and the then FRAC Chair who were not aware the plan had been received and thus should have been provided to them and reported on to the council/committee.
4. The reason for declining the request if/when the EY Audit team requested an opportunity to attend a FRAC meeting(s), and meet with committee members. As stated above, I believe the staff who would have received the reported the plan when received did not realise that it is best practice to do so.

You have the right to seek an investigation and review by the Ombudsman of this decision. Information about how to make a complaint is available at [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz) or freephone 0800 802 602.

If you wish to discuss this decision with us, please feel free to contact the Buller District Council by return email to [lgoima@bdc.govt.nz](mailto:lgoima@bdc.govt.nz).

Please note that it is our policy to proactively release our responses to official information requests where possible. Our response to your request will be published shortly at <https://bullerdc.govt.nz/district-council/your-council/request-for-official-information/responses-to-lgoima-requests/> with your personal information removed.

Kind regards

Douglas Marshall | Chief Financial Officer (Contractor)  
Mobile 027 458 4157 | Email [Douglas.Marshall@bdc.govt.nz](mailto:Douglas.Marshall@bdc.govt.nz)

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# **Buller District Council**

Audit Plan for the year ended  
30 June 2022

Issued: 8 July 2022

# WELCOME



## Dear Audit and Risk Committee Members

We are pleased to present our Audit Plan (“Plan”) for the audit of the financial statements and performance reporting of Buller District Council (“BDC” or “the Council”) for the year ended 30 June 2022. This Plan outlines the scope of our services, identifies Ernst & Young (“EY”) professionals that will serve you and presents our understanding of some key considerations that will affect the 30 June 2022 audit.

We conduct our audit in accordance with the Auditor General’s auditing standards which incorporate International Standards on Auditing (New Zealand). Our audit will be conducted to provide reasonable assurance that the financial statements and service performance information for the year ended 30 June 2022 are free of material misstatement.

Our Plan has been prepared based on our understanding of BDC and the local government sector. We have considered, and will continue to consider, BDC’s current and emerging operating risks, assess those that could materially affect the financial statements and performance reporting and align our procedures accordingly. The Plan will be responsive to your needs and will maximise audit effectiveness, so we can deliver the high quality audit you expect.

Should you have any questions or comments, please do not hesitate to contact us on 027 489 9939 (Brendan) or 027 4899 548 (Iain).

Yours faithfully



**Brendan Summerfield**  
Partner  
8 July 2022



**Iain Wood**  
Associate Director  
8 July 2022

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## AREAS OF AUDIT FOCUS

6

Key areas of focus where there are potential risks and exposure



The areas of audit focus and level of complexity or management judgement applied are:

- ▶ Infrastructure assets HIGH
- ▶ Integrity of rates strike, rates invoicing and collection MEDIUM
- ▶ Grants and subsidies MEDIUM
- ▶ Non-financial performance reporting LOW
- ▶ Debt LOW
- ▶ Controls over operating expenditure, payroll, procurement and tendering LOW

## AUDIT APPROACH



We will seek to rely on controls in the key financial statement processes and therefore expect to take a controls-based approach where possible and is deemed the most efficient audit approach.

We provisionally plan to test controls for the following financial statement processes. This may be reassessed during our interim audit procedures.

- ▶ Payroll
- ▶ Accounts Payable and Expenditure

The nature and extent of our controls testing is dependent on, and considers whether, the control environment of BDC is operating effectively.

We will take a substantive approach in areas of significant management judgement or where this has been assessed as a more efficient or effective approach. Processes that we will provisionally audit substantively are:

- ▶ Financial Statement Close Process
- ▶ Non- Financial performance reporting
- ▶ Infrastructure asset management
- ▶ Other revenue (fees, grants and subsidies)

## PLANNING MATERIALITY

\$962K



Our materiality threshold has been set at 3% of Council's Total Operating Expenditure as forecast for 2022 in the Long Term Plan. We will report to the Risk & Assurance Committee errors of more than \$48k.

Materiality will be set individually for each significant performance measure selected for testing.

We will confirm our independence throughout the audit and remain in compliance with NZ: *NZICA Code of Ethics and the Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) independence requirements* and the Auditor General's independence requirements.

## INDEPENDENCE



## ENGAGEMENT SCOPE



We are engaged to audit the financial statements and performance information of BDC on behalf of the Auditor-General. The Auditor-General has confirmed our appointment for the years 2022-2025.

We regularly engage with management as part of our audit planning and execution. We have set out on [Slide 13](#) a summary of our communications and deliverables throughout the 2022 audit.



## ENGAGEMENT TEAM

We understand our team is an important element of your relationship with us. Brendan Summerfield will lead the engagement as audit partner and will be supported by Grant Taylor as independent partner and Iain Wood as audit director.

# Infrastructure assets

## Our understanding

Infrastructure assets represent a significant component of the Council's balance sheet with carrying values of the following amounts at 30 June 2021:

 Assets	 \$million
Roading network and land under roads	274
“Three Waters” assets	70
Other	8
<b>Total value</b>	<b>352</b>

Infrastructure assets are formally revalued every 3 years by an independent third party, Beca, on a depreciated replacement cost basis, with the latest valuation (including all roading and 3 Waters assets) as at 30 June 2019. Infrastructure assets will be revalued as at 30 June 2022. Land under roads is based on fair value at 30 June 2005 and is no longer measured at fair value.

### Flood events

The district suffered two major flooding events during the year, in July 2021 and February 2022. These floods caused extensive damage to the Council's infrastructure assets, including roads and three waters assets. The flood events are expected to have a significant impact upon the Council's infrastructure assets' carrying values and will be reflected in the current year's valuation of those assets, if not already impaired.

The integrity of the classification of maintenance and/or capital expenditure is important from the perspective of correct classification in the financial statements and in terms of improving asset condition and therefore extending the expected useful life.

## Planned Audit Approach

- ▶ For infrastructure assets that will be revalued this year, we will review the completed valuations and obtain a reliance letter from the independent valuer, Beca. In particular, we will review key inputs to the valuation, considerations of the impact of the flood events on the valuations and consider valuation techniques for appropriateness.
- ▶ We will review that the information provided to the valuer to assess the appropriateness of data used in the valuation and if this is reflective of the data in Council's registers.
- ▶ If there are any infrastructure assets held at fair value in FY22 where a formal valuation is not conducted in the current year, we will assess the appropriateness of the carrying values at 30 June 2022 given the significant increases in replacement costs in recent years and in respect of those assets potentially impaired by the flood events.
- ▶ Given the likely significant downward impact upon the assets' carrying values from the floods, we will review the accounting in line with the requirements of IPSAS 17 (including the impact of any downward revaluation on P&L and/or revaluation reserves).
- ▶ We will review whether depreciation estimates have been recorded in the current year based on prior period valuations.
- ▶ We will obtain assurance in relation to the appropriateness of work in progress (WIP) cut-off at balance date, if material, and confirm the carrying value of WIP is supportable in relation to both valuation and that the nature of the costs are in line with PBE IPSAS 17.
- ▶ We will consider the progress on the Three Waters Reform Programme to the extent it impacts the 30 June 2022 Annual Report, including from a disclosure perspective.

### Key Judgements :

Relevant accounting standards: PBE IPSAS 17 Properties, Plant and Equipment

Level of complexity or management judgement: HIGH



## Infrastructure assets

### Our understanding

#### *Three Waters*

As part of the Three Waters Reform Programme, the Government has announced that it will establish four Water Service Entities. The four new entities will replace the services currently managed by the 67 territorial local authorities. Current expectation is that an implementation bill will be introduced during 2022 and an economic regulation bill will be introduced in early 2023. The Government expects the four new entities to be operational from 1 July 2024. The District Council will no longer responsible for the delivery and infrastructure of Three Water services from 1 July 2024 once the reform is legislated.

There still continues to be a lot of detail to be worked through to determine Council involvement and this will likely require disclosure in the Annual Report and Audit Opinion. This is a matter that we are monitoring on an ongoing basis given the significance of this change upon the sector.

## Planned Audit Approach

We understand that BDC did not receive any Crown stimulus funding in respect of Three Waters Reform during the year, though it did receive funding for specific Three Waters projects (Westport Trunk Main and Punakaiki Trunk Main).

We will continue to monitor developments in the Reform Programme and assess the need for disclosure, if any, in the Council's Annual Report.

#### Key Judgements :

Relevant accounting standards: PBE IPSAS 17 Properties, Plant and Equipment

Level of complexity or management judgement: **HIGH**





# Integrity of rates strike, rates invoicing and collection

## Our understanding

Rates income levied represents a significant revenue source for the Council. There is specific legislation in place which must be adhered to for the rates strike to be legal. Failure to comply with rating law and the associated consultation requirements can create significant risks to the integrity of rates revenue.

The following table reflects a summary of the rates revenue recognised by the Council for the year ended 30 June 2021:

 Rates Revenue	 2021 Annual Report \$million
General Rates	8.6
Targeted Rates	6.5
Penalties	0.1
<b>Total value</b>	<b>15.2</b>

- ▶ The accuracy of a rates strike is dependent on the integrity of the rates database. The reliability of the rates billing system is also key to ensure rates are billed appropriately.

## Planned Audit Approach

- ▶ We will obtain an understanding of your rating structure and rates strike.
- ▶ We will review BDC's procedures for ensuring the rates set are compliant with the Local Government (Rating) Act 2002.
- ▶ We will test the controls over the rates levying process to assess whether these are operating effectively.
- ▶ We will examine any provision for doubtful rates debtors to consider whether it is appropriate in the circumstances of collectability.
- ▶ On a sample basis, we will undertake a review of the billing to specific ratepayers and subsequent collection.

### Key Judgements:

Relevant accounting standards: *PBE IPSAS 2.3 Revenue from Non-Exchange Transactions*

Level of complexity or management judgement: MEDIUM



# Grants, subsidies and fees for services

## Our understanding


During 2021/22, the Council has received grants from various government agencies, including in respect of Three Waters and the flooding emergency response and return to service. These grants typically require funding to be spent on a particular project or area of Council's operations with any unspent funds to be returned.

As a result of the flood events during the year, we anticipate the Council will receive significant funding from central government to assist with the Flood Recovery Action Programme.

Any unspent amounts at balance date are recorded as a current liability, Revenue Received in Advance.

The Council receive a recurring NZTA funding to subsidise costs associated with local roads. The funding assistance rate is typically fixed percentage with higher amounts being available in certain circumstances such as for emergency works.

Details of significant Grants and Subsidies and their financial statement impact in the year ended 30 June 2021 are noted below:

Grant/Subsidy/Fees and charges	Revenue \$million	 Revenue in advance \$ million
Subsidies and grants	20.0	-
Fees and charges	4.3	
<b>Total value</b>	<b>24.3</b>	<b>3.6</b>

## Planned Audit Approach

We will perform the following audit procedures in order to validate the revenue during the year and liability positions recognised as at year end:

- ▶ Obtain and review funding agreements for significant grants and subsidies to understand revenue recognition principles and any clawback obligations implicit in the agreements, including any specific funding in respect of flood recovery.
- ▶ For contracts requiring regular progress reporting, we will obtain the most recent communication with the provider to understand project status and whether estimated completion is on schedule.
- ▶ For NZTA claims, we will check claim calculations will appropriately factor in the funding assistance rates for each type of expenditure.
- ▶ We will check underlying costs on a sample basis, to supporting documentation to verify that Council is claiming expenditure that is relevant to the requirements of the agreement.
- ▶ Review significant expenditure either side of balance date to ensure expenditure and corresponding positions are recognised in the appropriate period.
- ▶ For a sample of grants and subsidies, we will vouch the receipt of funds to Council bank statements.

**Key Judgements:** Appropriateness and measurement of costs included in claim, Funding Assistance Rates applied within the claim

**Relevant accounting standards:** [PBE IPSAS 23 Revenue from Non-Exchange Transactions](#)

**Level of complexity or management judgement:** MEDIUM



## Non-financial performance reporting

### Our understanding

The Council is required to report its performance against performance measures included in the Long-Term Plan (LTP). These measures are key to the Council providing a "performance story" to the community.

Our audit opinion on the service performance report covers compliance with generally accepted accounting practice, and whether or not the service performance report fairly reflects the Council's actual service performance for the period.

The performance framework set as part of the 2021/31 LTP is applicable for the current financial year.

There is a risk of inadequacy of reporting systems to monitor performance and hence the potential failure to adequately report the provision of core utility services to the public.

There have been changes to the accounting standards in relation to service performance reporting. This has been formalised through PBE FRS 48 *Service performance reporting* which is applicable to all public sector entities. The standard is not effective until periods beginning after 1 January 2022. We have provided more detail in our Focused on the Future section within the appendices to our report.

## Planned Audit Approach

- ▶ We will examine, on a sample basis, service performance measures and check the measures have been accurately reported on and outputs have been achieved where stipulated. For the selected measures, this will include obtaining underlying supporting documentation and re-performing the calculations made by the Council to determine outcomes reported.
- ▶ We will assess the completeness and effectiveness of the performance framework utilised.
- ▶ We will check whether the mandatory performance measures stipulated by the Non-Financial Performance Measures rules 2013 have been reported appropriately.

### Key Judgements:

Selection of measures relevant to reporting non-financial performance: **LOW**



# Debt

## Our understanding

At 30 June, 2021, the Council had drawn down approximately \$31.8m of debt through a \$20m facility with the Local Government Funding Agency (LGFA) and a \$14m facility with Westpac.

The Council is responsible for preparing Reporting Certificates to the Trustee in accordance with the requirements of the Trust Deed and we are required to report to the Trustee with respect to the reporting certificates.

## Planned Audit Approach

- ▶ We will obtain an understanding of debt facility agreements maintained in the year and review the relevant debt facility agreements including the process for managing drawdowns.
- ▶ We will obtain evidence supporting any changes to Council's borrowing obligations and limits with LGFA.
- ▶ We will consider the term or current classification of the debt.
- ▶ We will obtain LGFA confirmation of the outstanding debt position at year end.
- ▶ We will also complete procedures required of us by the debenture trust deed.

### Key Judgements:

Relevant accounting standards: [PBE IPSAS 28 Financial Instruments: Presentation](#), [PBE IPSAS 29 Financial Instruments: Recognition and Measurement](#), [PBE IPSAS 30 Financial Instruments: Disclosures](#)

Level of complexity or management judgement: **LOW**



# Controls over operating expenditure, including sensitive expenditure, payroll, procurement and tendering

## Our understanding

Appropriateness of Councillor and management expenditure is an area of interest to ratepayers.

Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit.

The Council's capital works programme involves significant cash spend. The Council has a range of policies that seek to ensure procurement is managed in the best interests of the Council.

- ▶ OAG's controlling sensitive expenditure guidelines for public entities require expenditure decisions to:
  - ▶ Have a justifiable business purpose
  - ▶ Be cost-effective
  - ▶ Preserve impartiality
  - ▶ Be made with integrity
  - ▶ Be moderate and conservative, having regard to circumstances
  - ▶ Be made transparently
  - ▶ Be appropriate in all respects

It is important robust procurement processes are utilised especially for long term, high value contracts. The OAG published another good practice guide in June 2020 called *Managing conflicts of interest: A guide for the public sector which assists public entities in identifying and managing conflicts of interest throughout operations.*

Remuneration of Councillors and those in leadership roles is also an area of interest.

## Planned Audit Approach

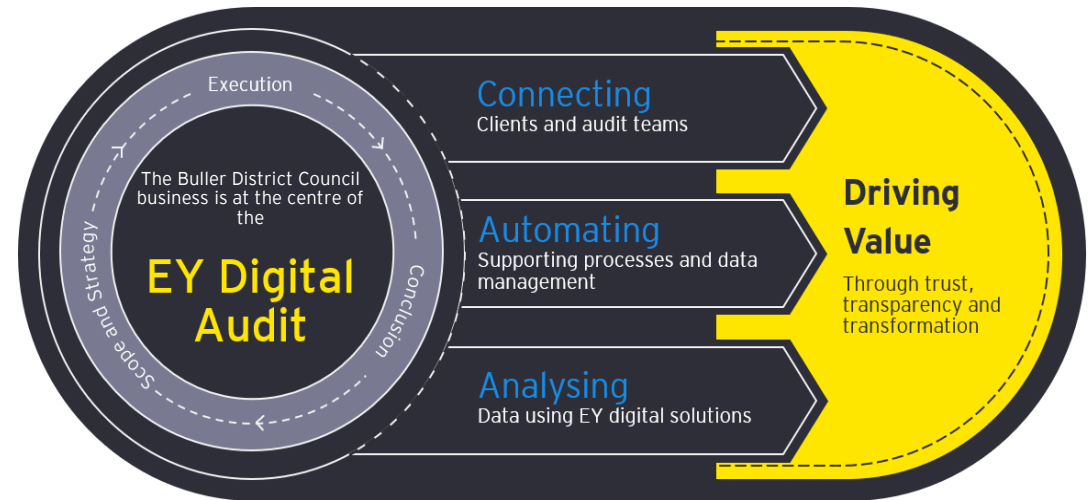
- ▶ We will examine, on a sample basis, the use of credit cards and obtain assurance that expenditure has been incurred for a reasonable Council purpose.
- ▶ We will examine the application of the procurement policy across a sample of contracts.
- ▶ For a sample of expenses, we will complete testing to check if the expenditure is appropriate against the Council's policy and best practice guidelines issued by the OAG.
- ▶ We will obtain assurance that appropriate processes and controls over operating expenditure and Councillors' allowances are in place.
- ▶ We will obtain an understanding of any internal audit programmes that have occurred during the financial year and obtain any finalised reports relating to these areas of focus.

**Key Judgements:** Appropriateness of the nature of spending.  
**Relevant standards:** Managing conflicts of interest: A guide for the public sector which assists public entities in identifying and managing conflicts of interest throughout operations  
**Level of complexity or management judgement:** LOW

# Digital Audit Approach

## Your purpose built digital audit for now, next and beyond

Digitalisation continues to be one of the most important drivers of transformation, especially in these changing times. The effects of the COVID-19 pandemic have disrupted the normal accounting and reporting cycle for many companies and accelerated the digitalisation of working environments. It is even more critical now for companies to share trustworthy and readily available financial information for stakeholders.

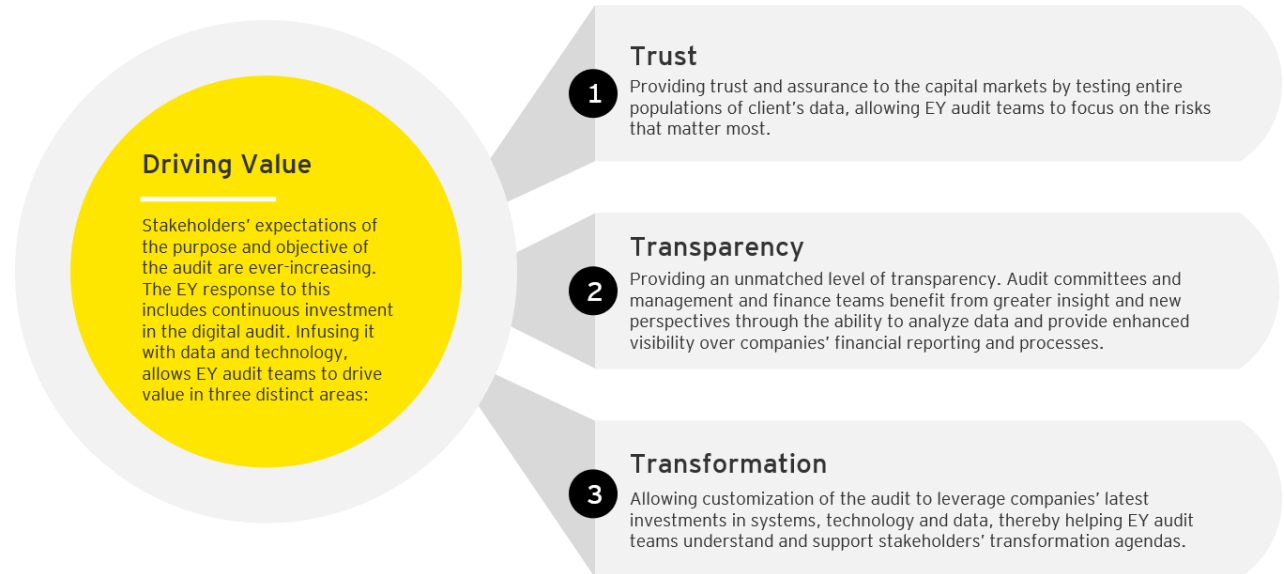


## Data-driven Audit

To meet the expectations of stakeholders, regulators and clients of a modern audit, EY has invested over a \$1bn in new technology, revolutionising our professional practice and approach to digital audit.

With the EY Digital Audit analysing large or full sets of data from our clients' data population, we are responsive to the changing risk profiles of our clients.

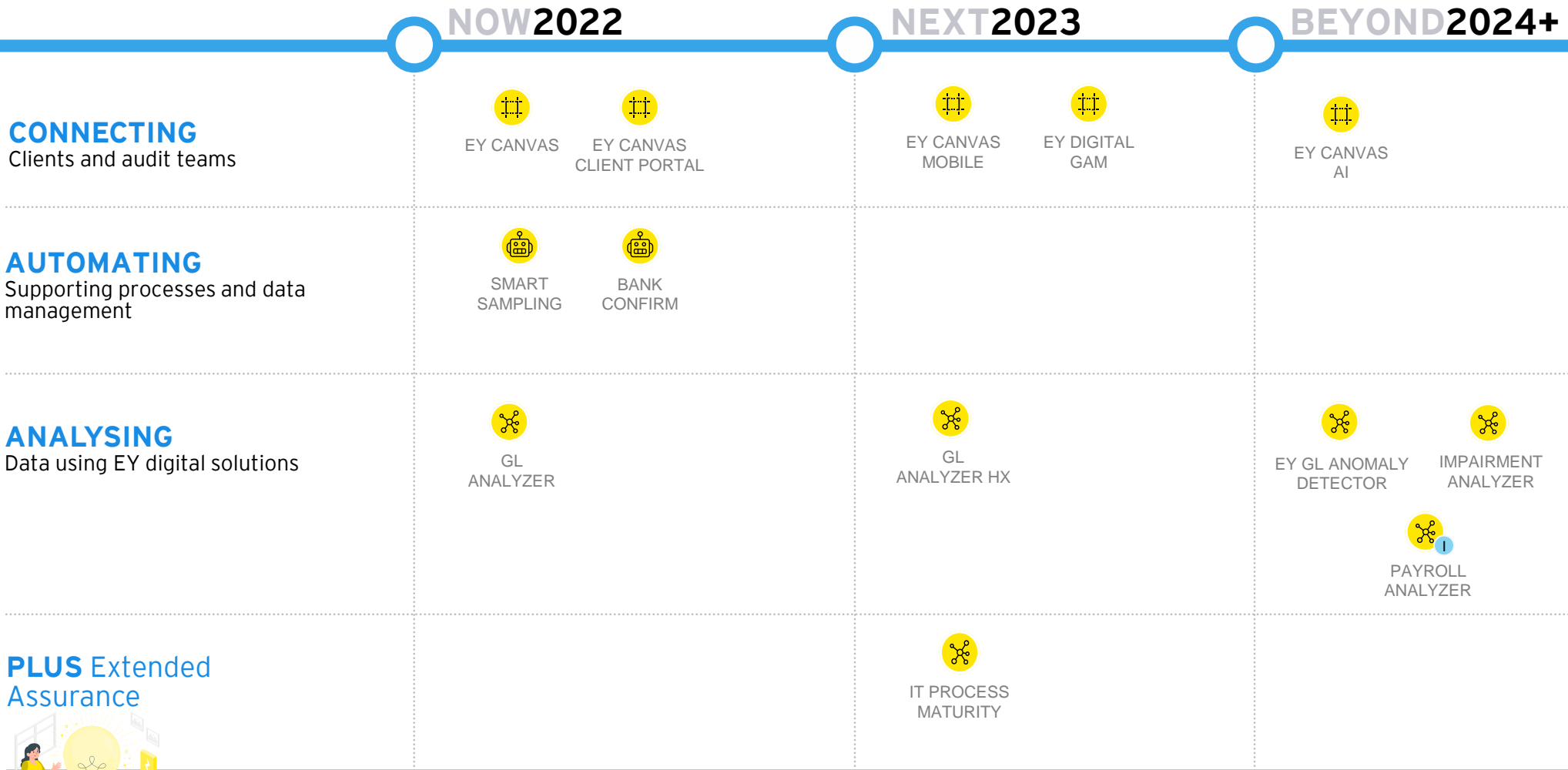
The EY Digital Audit improves the way our auditors look at risk, reduces management burden in supporting the audit and provides new insights to improve Buller District Council's finance processes.





# Digital Audit roadmap

During our planning for the Buller District Council we have established the Buller District Council's Digital Audit Roadmap covering the technologies most applicable to the risks of the business, for the Now, Next and Beyond.



**Legend:** P Pilot I Implement

**Note:** Implemented solutions will be used every year unless specified

## Your EY Team

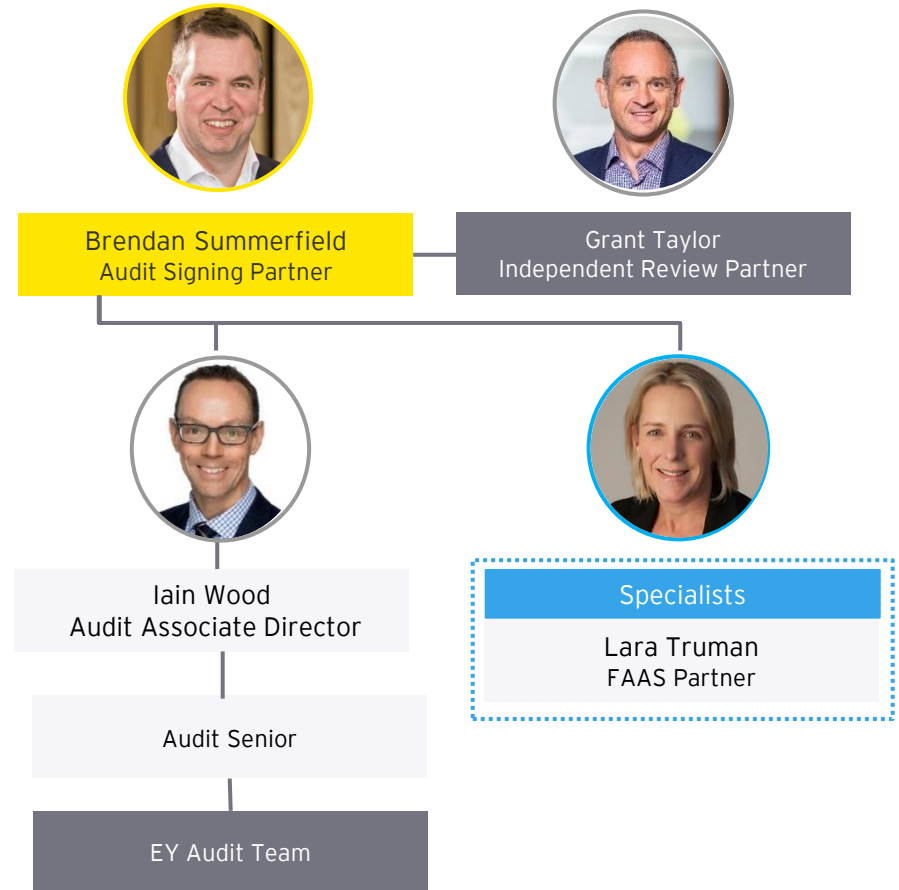
We understand that our team is the most important element of your relationship with us. Brendan Summerfield has been appointed as signing partner on behalf of the Office of the Auditor-General. Brendan will be supported by Grant Taylor as independent review partner and Iain Wood as audit director. The team will be supported by Lara Truman, a technical accounting partner with a focus on PBEs and IPSAS reporting.

Our team provides BDC with previous Council and public sector experience to your audit. In addition, we utilise appropriate subject matter experts to support the audit i.e. Financial Accounting Advisory Services ("FAAS") team to assist us in addressing the financial accounting risks. These combined factors enable us to focus on the significant issues facing your business.

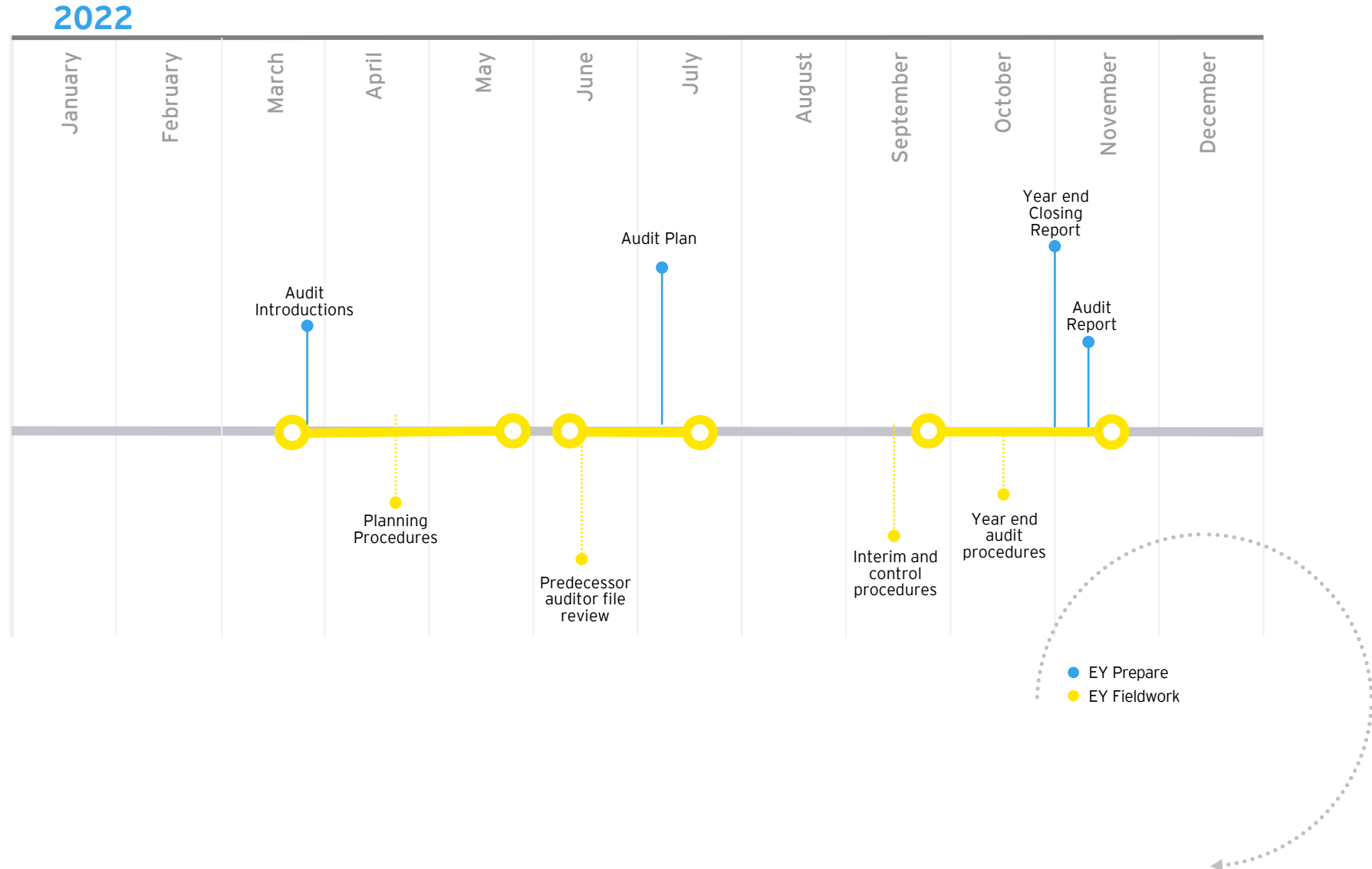
Throughout our audit process, Brendan and Iain will attend the Risk and Assurance meetings and are available to meet the Committee or the Council at any time during the year. Brendan is available to meet with the Risk and Assurance Committee Chair prior to each meeting, at a minimum.

### Team Rotation

We believe that the periodic rotation of the key decision makers on the audit assists with maintaining our independence and bringing a fresh view. We actively plan rotation well in advance of the required rotation period to ensure that you benefits from a smooth transition. Brendan will not be due to rotate off BDC until after the 2027 audit.



# Engagement Execution



# APPENDICES

A. Independence

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B. Data Security and Privacy

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C. Focused on Your Future

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## A. Independence

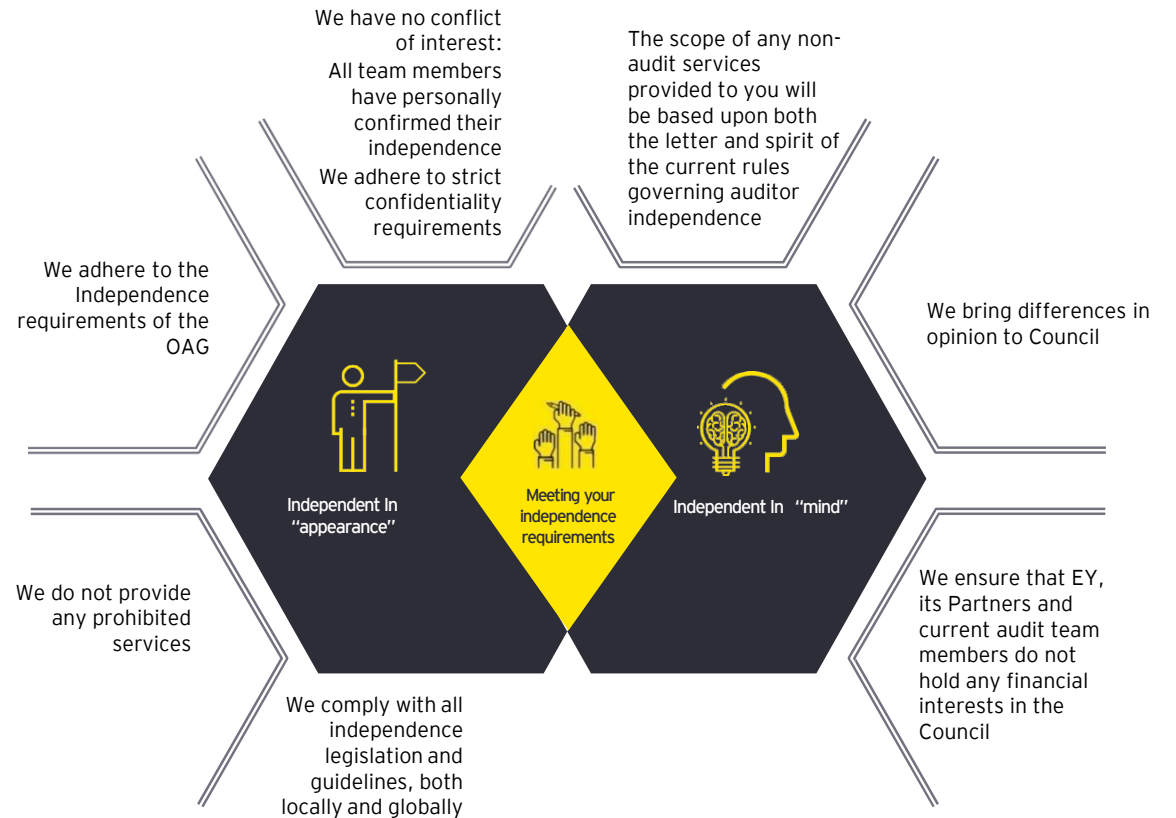
Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet independence requirements.

We have consistently complied with all professional regulations relating to auditor independence including those outlined in:

- ▶ PES 1 *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*
- ▶ Independence requirements of the Office of the Auditor-General

Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.

There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Risk & Assurance Committee.



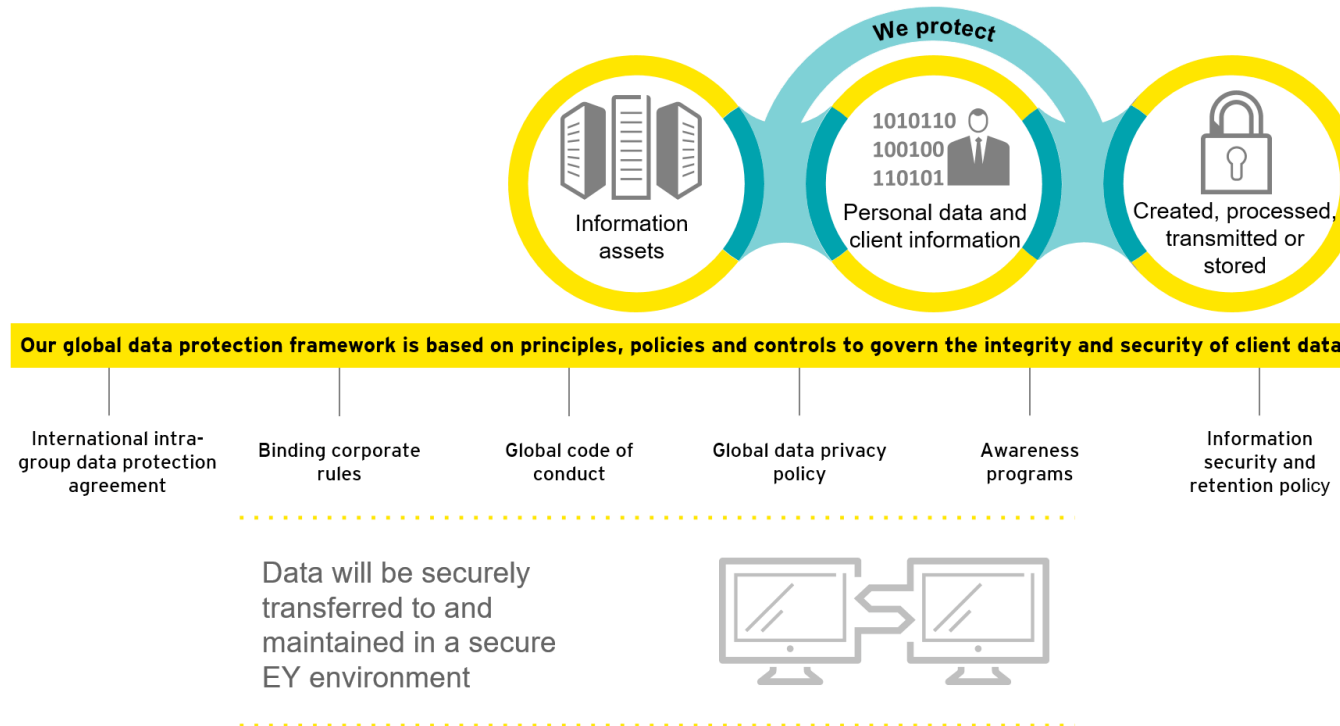


## B. Data Security and Privacy

Our ability to provide seamless, consistent, high-quality client service worldwide is supported by a well-articulated data privacy and information security strategy.

For the audit of Buller District Council the following applies:

- ▶ Access to EY Canvas is restricted to members of the engagement team only.
- ▶ Audit relevant information is transferred to EY securely via EY Portal or email.
- ▶ More sensitive personal data is loaded into Helix Subledger Analyzers for each component, access is therefore restricted to the relevant component team only.
- ▶ Less sensitive journal entry data is loaded into Helix GL Analyzer for the whole Group and is accessible by component teams who filter and analyse the data relevant to their component.



## C. Focused on Your Future

### FRS 48 Service Performance Reporting

#### Background

The NZASB has issued a new accounting standard for PBEs, FRS 48 Service Performance Reporting. This new standard requires the preparation of Statements of Service Performance for PBEs that report in accordance with Tier 1 and Tier 2 PBE standards.

The Standard describes service performance information as information about what an entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information. The standard establishes principles and high-level requirements for the reporting of service performance information rather than specifying detailed reporting requirements. This is due to the standard being applied to a wide range of PBEs.

An explanatory guide to FRS 48, called EG A10, has been issued by the XRB and is published on their website (<https://www.xrb.govt.nz/accounting-standards/not-for-profit/explanatory-guide-eg-a10/>).

### PBE IPSAS 41 Financial Instruments

#### Background

PBE IPSAS 41 introduces a new model for classifying financial assets, whereby financial assets are classified based on the nature of their underlying cash flows and the business model under which the assets are held and managed.

PBE IPSAS 41 introduces a new, forward-looking impairment model based on expected credit loss ("ECL"), which is different to the current "incurred loss" model in PBE IPSAS 29. The new impairment model will impact financial assets recognised at amortised cost (e.g. trade receivables) and debt instruments recognised at fair value through other comprehensive revenue and expense, as well as lease receivables.

Even for those PBEs that are not financial institutions and have simple financial assets, the standard will require consideration of the model an entity uses to assess impairment. It is expected that the new model will bring forward the recognition of impairments.

New Accounting Standards

#### Recommendations

For the year ended 30 June 2023 BDC is required to prepare a Statement of Service Performance under legislation and the new standard will primarily result in disclosure changes as opposed to the primary content of the existing Statement of Service Performance changing. Likely disclosure changes include providing the details of the judgements associated with selecting and measuring performance metrics.

PBE IPSAS 41 is applicable to BDC for the year ended 30 June 2023. BDC holds financial instruments, including:

- ▶ Contractual receivables and payables
- ▶ Loans

The new impairment model is unlikely to significantly affect short-term receivables of BDC, but may have a significant impact on longer-term financial assets. When applying the new model, BDC should consider the following:

- ▶ When assessing assets for impairment under PBE IPSAS 41, BDC will need to estimate and recognise credit losses arising from possible future default events, rather than recognising impairment only once indicators of default occurs, as per PBE IPSAS 29.

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EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

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Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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ED None

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