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Stratford District Council and Group audit plan

Year ended 30 June 2024

12 July 2024

MAKING AN IMPACT THAT MATTERS since 1845

Purpose of report

This report has been prepared for Stratford District Council's Audit and Risk Committee (the 'Committee') and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business dated 11 July 2024 and as required by New Zealand auditing standards.

This plan is intended for the Committee (and other Council members) and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.

This report includes only those matters that have come to our attention as a result of performing our audit procedures to date and which we believe are appropriate to communicate to the Committee. The ultimate responsibility for the preparation of the financial statements rests with the Council members.

Responsibility statement

We are responsible for conducting an audit of Stratford District Council (the 'Council') and the Percy Thomson Trust (hereafter collectively referred to as the 'Group') for the year ended 30 June 2024 in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and International Standards on Auditing (New Zealand).

We will perform a separate statutory audit for Percy Thomson Trust for the year ended 30 June 2024, which forms part of the consolidated financial statements.

Our audit is performed pursuant to the requirements of the Local Government Act 2002, Public Act 2001 and the Financial Reporting Act 2013, with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Council members. The audit of the financial statements does not relieve management or the Council members of their responsibilities.

Our audit is not designed to provide assurance as to the overall effectiveness of the Group's controls but we will provide you with any recommendations on controls that we may identify during the course of our audit work.

Contents

Planning report

Introduction

Dear Committee members

We are pleased to provide you with our planning report for the audit of Stratford District Council (the 'Council') and its subsidiary, Percy Thomson Trust, (collectively, the 'Group') for the year ended 30 June 2024.

We understand our responsibility to you, and we have developed a tailored audit plan that summarises the key aspects of our audit scope and approach, our planned communications with you, and our team structure.

This report is designed to outline our respective responsibilities in relation to the audit, to present our audit plan and to facilitate a two-way discussion on the plan presented. This plan is therefore intended for the Committee (and other Council members) and should not be distributed further.

We appreciate the opportunity to serve the Group. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.

Yours sincerely,

Pam Thompson, Partner
for Deloitte Limited
Appointed Auditor
On behalf of the Auditor-General
Wellington | 12 July 2024

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Areas of audit focus

Area of audit focus	Status	Significant risk	Fraud risk	Control testing planned	Level of management judgement	Management paper expected	Page #
Valuation of assets	↻	✓		D	🔴	✓	7
Management's ability to override controls	↻	✓	✓	D	Not applicable		8
Revenue recognition	↻			D	🟢		9
Government reviews and proposals	↻			D	🟡	✓	10
Specific OAG audit brief matters	↻			D	🟢		11
Statement of service performance	↻			D	🟡		12
Percy Thomson Trust	↻			D	🔴		13

Status

★ New area of focus

↻ Continuing area of focus

Control testing planned

D: Evaluate whether control design manages risk appropriately

OE: Planning to test if controls were operating effectively and can be relied upon

Level of management judgement required

🟢 🟡 🔴

Low → High

Areas of audit focus

Valuation of assets

Risk identified

The Council has a significant asset base with several asset classes carried at fair value. These assets are revalued on a three-year cycle. Intervening years require an assessment as to whether the fair value of these assets differs materially from their carrying value and, if so, need to be revalued.

The following asset classes are carried at fair value, including the date that they were last revalued:

- Land and buildings: 30 June 2023
- Roading assets: 30 June 2021 (a revaluation uplift based on an index approach was recognised at 30 June 2022)
- Three waters infrastructure: 1 July 2021

What it means for our audit in 2024

This year a full revaluation will be performed for roading and three waters infrastructure assets. Management is engaging with their external valuers, Beca Projects NZ Limited, to assist with these valuations.

A fair value assessment will also be performed for land and buildings to assess whether the carrying value of the assets at 30 June 2024 differs materially from their fair value. We understand that management has engaged TelferYoung to assist with this assessment.

The fair value assessment of assets is an area that continues to receive increased focus in the sector and therefore has been identified as a significant risk in the current year.

Planned audit response

For those in-cycle asset classes subject to a full valuation (roading assets and three waters infrastructure), we will:

- Read and understand the valuers' reports, in particular the valuation methodologies and underlying assumptions adopted;
- Obtain representation directly from the independent valuers confirming their independence and alignment of their methodologies with the requirements of PBE IPSAS 17 *Property, Plant and Equipment*;
- Review the key underlying assumptions used and challenge the assessment made to ensure these assumptions are reasonable and in line with the accounting standards; and
- Ensure the revaluation transaction is correctly accounted for and disclosed in the financial statements.

For those assets where a full revaluation is not planned (land and buildings), we will:

- Obtain management's assessment of the indicative movement in fair value, supported by reports from independent experts; and
- Assess the assumptions and inputs applied to the quantitative assessment, using market-based evidence where available, and agreeing to appropriate supporting documentation.

Areas of audit focus

Management's ability to override controls

Risk identified

In accordance with the International Standard on Auditing (New Zealand) 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* ('ISA (NZ) 240'), there is a presumed risk associated with management's ability to override controls.

Management's ability to override controls is identified as a fraud risk because it relates to those controls in which manipulation of the financial results could occur. It has a potential impact to the wider financial statements and is therefore a significant risk.

What it means for our audit in 2024

This is a mandatory area of focus for all audits, and we will design and perform audit procedures to respond to this presumed risk.

Planned audit response

As part of our audit procedures, we will:

- Understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements;
- Test the appropriateness of a sample of journal entries and adjustments and make enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments;
- Review accounting estimates for biases that could result in material misstatement due to fraud, including assessing whether the judgements and decisions made, even if individually reasonable, indicate a possible bias on the part of management;
- Perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements; and
- Obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment.

Areas of audit focus

Revenue recognition

Risk identified

ISA (NZ) 240 requires us to presume there are risks of fraud in revenue recognition and therefore this is a focus area for the audit.

The Council has various revenue streams, which are required to be considered separately to ensure they are in line with the PBE Accounting Standards.

Failure to comply with rating law and the associated consultation requirements can create risks for rates revenue. Compliance with the detail of the Local Government (Rating) Act 2002 ('LGRA') is vital; if the rate is not within the range of options and restrictions provided for in the LGRA, it may not be valid.

Management and Council need to ensure that the requirements of the LGRA are adhered to and that there is consistency between the rates resolution, the Funding Impact Statement for the year, and the Revenue and Financing Policy in the respective Long Term Plan ('LTP') or Annual Plan ('AP').

What it means for our audit in 2024

A material misstatement due to fraudulent financial reporting relating to revenue recognition often results from an overstatement of revenues through, for example, premature revenue recognition or recording of fictitious revenues. It may also result from an understatement of revenues through, for example, improperly shifting revenues to a later period.

We have rebutted the significant risk of fraud associated with revenue recognition, due to our understanding and risk assessment of the Council's various revenue streams. However, due to the significance of revenue to the financial statements, we have identified revenue recognition as an area of audit focus.

Planned audit response

As part of our audit procedures, we will:

- Understand, evaluate, and test the design and implementation of relevant controls that address the risks of revenue recognition;
- Assess the quality of information produces from the IT system and ensure accuracy and completeness of reports that are used to recognise revenue;
- Complete the 'rates questionnaire' compiled by the Office of the Auditor General, to confirm whether rates have been set correctly;
- Review the meeting minutes recording the adoption of the rates resolution to ensure the rates are in accordance with the Revenue and Financing Policy, as well as review any other information available with regards to rates;
- Complete analytical procedures by developing expectations based on our knowledge of the Sector and key performance measures for rates revenue;
- Perform tests of details over transactions recorded in the general ledger by tracing these transactions to supporting documentation, including bank statements, for other material revenue streams; and
- Assess the impact of any changes to revenue recognition policies.

Areas of audit focus

Government reviews and proposals

Risk identified

There continues to be change in the Sector with new regulatory requirements (new and updated national policy statements) in place or proposed, most notably the three waters reform in recent years, as well as other areas being considered by the Government.

This constant change makes it challenging for Councils to plan ahead, particularly because of the uncertainties of regulatory settings and the significant cost implications of these changes.

What it means for our audit in 2024

Three waters reform

The Water Services Entities Act 2022, as amended by the Water Services Entities Amendment Act 2023 on 23 August 2023 and the Water Services Legislation Act 2023 on 31 August 2023, establishes ten publicly owned water services entities to carry out responsibilities for the delivery of three waters services and related assets and liabilities currently controlled by local authorities.

The legislation sets up these entities to be structurally independent from their council owners, and they will take over the ownership and operations of the three waters assets on the “establishment date”.

Water services entities’ establishment dates are staggered, with preliminary establishment dates set between 1 October 2024 to 1 October 2025. Dates are subject to change and should be treated as preliminary until set out in an Order in Council.

Until the relevant water service entity’s establishment date, a council must plan to at least maintain the levels of service for water services that were planned to be provided by that council in 2023/24.

Planned audit response

As part of our audit procedures, we will:

- Continue to follow up on the impact of these initiatives to the Council; and
- Maintain close communication with the Office of the Auditor General if there are any other areas that require further consideration.

At this stage, consistent with previous years, the audit reports of affected councils will draw readers’ attention to disclosures made in the financial statements setting out the affordable water reforms and their impact on the councils’ operations, including the financial position.

Areas of audit focus

Specific OAG audit brief matters

OAG theme

Each year the OAG publishes a report based on a theme which we as appointed auditors assist to gather information as requested. Focus by the OAG in the current year is predominantly on the 2024-34 Long Term Plan audits, which we have reported on previously.

Other themes in the 2023/24 audit brief remain consistent with previous periods and include:

- Water reforms (refer previous focus area); and
- Climate change and resilience of infrastructure assets to the risk of natural hazards.

Other areas of focus

As a public entity there are certain sector behavioural expectations placed on the Council. The following have been identified by the OAG as areas of focus:

- Effectiveness and efficiency, waste and a lack of probity or financial prudence;
- Sensitive expenditure;
- Fraud risk factors; and
- Compliance with laws and regulations.

Planned audit response

OAG audit brief

We expect to include a conclusion on our findings with regards to the areas of audit focus outlined in this report and will inform management and the Committee of any information that we may provide to the OAG.

Other areas of focus

We will integrate the OAG audit brief into our overall audit field work and interaction with the Council, this includes:

- Reviewing a sample of sensitive expenditure areas and items to ensure that the expenditure is compliant with the Council's policies, procedures and best practice. Our work will specifically include looking to ensure that the business purpose of expenditure is documented and all expenditure has been appropriated approved using the 'one-up' principle as recommended by the OAG;

- Performing a review of significant related party transactions including conflicts of interest to ensure all appropriate disclosures surrounding these transactions have been made in the financial statements;

- Enquiring with the Committee, management, and others within the entity regarding the risk of fraud within the Council and the processes in place to mitigate those risks;

- Evaluating the processes and monitoring procedures over legislative compliance with an aim of assessing the appropriateness and effectiveness in enabling compliance with material legislative and regulatory requirements.

Reporting to the OAG

We are required to report to the OAG the results of our audit within 72 hours of signing the audit reports. This reporting includes signed consolidated financial statements, audit report, summary of audit findings and final report to the Committee.

Areas of audit focus

Statement of service performance

Risk identified

PBE FRS 48 *Service Performance Reporting* includes the requirements for the selection and presentation of service performance information. It applies to Tier 1 and 2 not-for-profit PBEs and to public sector PBEs which are required by law to report service performance information in accordance with GAAP.

The Council's annual report is required to include an audited Statement of Service Performance ('SSP') which reports against the performance framework included in the Annual Plan / Long Term Plan.

The SSP is an important part of the Council's annual performance reporting and it is important it adequately 'tells the performance story' for each group of activities.

What it means for our audit in 2024

Our audit opinion considers whether the service performance information:

- Is based on appropriately defined elements (outcomes, impacts, outputs), performance measures, targets/results; and
- Fairly reflects actual service performance for the year (i.e. not simply reports against forecast).

Planned audit response

As part of our audit procedures, we will:

- Review the Council's SSP against legislative requirements and good practice. This will include checking consistency with the performance framework included in the Annual Plan and Long Term Plan;
- Audit a sample of the reporting performance measures, with a focus on the more significant groups of activities; and
- Review the narrative commentary and explanatory information provided in the annual report to ensure that this provides sufficient information to the readers, i.e. 'tells the performance story'.

Areas of audit focus

Percy Thomson Trust

Risk identified

The Percy Thomson Trust (the 'Trust') is a Council-Controlled Organisation and is consolidated as part of the Stratford District Council Group.

The Trust applies the XRB's Tier 3 (PS) Standard *Requirements for Tier 3 Public Sector Entities*.

What it means for our audit in 2024

We will audit the performance report of the Trust for the financial year ended 30 June 2024.

Planned audit response

As part of our audit procedures, we will:

- Review the Trust's SSP against legislative requirements and good practice. This will include checking consistency with the performance framework included in the Trust's Statement of Intent; and
- Conduct appropriate audit procedures in response to identified risks of material misstatement, including revenue, financial assets, and the valuation of land and buildings.

An elevated focus on the Group's control environment

We continue to increase our focus on internal controls as a core element of our audit as a strong control environment is core to both reliable financial reporting and business resilience

The economic environment is challenging. Increasing operational, regulatory and financial complexity, renders businesses more exposed than ever to fraud and error. In addition, reflecting macroeconomic volatility – entities are having to identify and respond to new risks more frequently than ever before.

As a result, stakeholders globally, not just the financial markets and regulators, but also government and wider society are expecting higher standards of corporate and financial governance.

In today's economic climate, it is critical for a company to be able to effectively identify and then respond to risks and challenges on a timely basis. Strong governance and control are essential in this regard.

Robust processes and controls are fundamental to financial resilience, with internal controls being the foundation that enables a company protects itself and builds stakeholder trust and confidence. Whilst controls cannot predict the future, they can be a good indicator as to whether a company is prepared for uncertainty, change, and risk.

The benefits of investing in strong governance, a robust finance function and internal control environment will extend far beyond just compliance and may be the difference between a company's success and failure.

When designed and implemented appropriately, a robust internal control environment:

- Reduces risk – through fraud and error prevention and detection, safeguarding of company assets and ensuring compliance with laws and regulations
- Increases financial resilience – by enabling transparency, accountability, viability and increased reliability and integrity of financial information; and
- Optimises returns – by establishing a foundation to support growth, including easier access to markets and funding.

An effective, robust control environment is particularly important in times of uncertainty, where risks arise, and the company needs to identify them quickly and respond confidently.

Key information and data that is reliable and accurate is integral for decision-makers for analysis and evaluation in real-time, allowing companies to achieve its commercial objectives with a grounded understanding of the risks associated with its decisions.

Today, the risks entities face continuously evolve, pulling the finance function and existing internal control environment in multiple directions. Every change made to a business model likely requires a corresponding change to internal controls which is often overlooked, resulting in increased exposure to risk as a result of a disconnected finance function and internal control environment.

Given the factors noted we are looking to elevate the transparency of our evaluation of your control environment and thematic observations on where strengthening would support business resilience and financial reporting reliability.

Our approach to controls for areas of audit focus was outlined on the earlier pages.

Technical update

Developments in financial reporting

Public benefit entities

The following table provides a high-level summary of the major new accounting standards, interpretations and amendments that are relevant to the Council. A full list of the standards on issue but not yet effective is released quarterly and is available here: https://www2.deloitte.com/nz/en/pages/audit/articles/accounting-alert.html?icid=top_accounting-alert

Major new standard, interpretation or amendment	Effective date (periods beginning on or after)
Public Sector Specific Financial Instruments (Non-Authoritative Amendments to PBE IPSAS 41)	1 January 2023
Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1)	1 January 2024

Early implementation efforts recommended

Early effort to consider the implementation of these standards is recommended in order to provide stakeholders with timely and decision-useful information. Implementation steps are outlined opposite.

Steps for implementation
Determine extent of impact & develop implementation plan
Monitor progress and take action where milestones are not met
Identify required changes to systems, processes, and internal controls
Determine the impact on covenants & regulatory capital requirements, tax, dividends & employee incentive schemes

Disclosure of fees for audit firms' services

Amendments to PBE IPSAS 1

The amendments require fees relating to services provided by the entity's audit or review firm to be disaggregated into specified categories with guidance on how to distinguish between categories, and how to determine fees. The amendments are effective for accounting periods beginning on or after 1 January 2024, and are available for early adoption for accounting periods ended on or after 15 June 2023.

The audit or review of financial statements

Total fees (including disbursements such as travel and accommodation) for audit or review of financial statements include all services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial statements and provide other required communications to those charged with governance as part of the audit or review engagement.

Examples provided of activities included as audit or review services:

- Attendance at audit committee meetings, board meetings, or annual general meetings for the purpose of discussing matters arising as a result of the financial statement audit or review engagement.
- Discussions with management about audit or accounting matters that arise during or as a result of the financial statement audit or review engagement.
- Preparation of a "management letter" to those charged with governance to report on the outcomes of the financial statement audit or review engagement, including advice and recommendations to improve the internal control environment.
- Time incurred in connection with the audit or review of the income tax accrual or deferred tax balances as reported in the financial statements.

Other services

Total fees for services should be split into the following categories:

(i) Audit or review related services
(ii) Other assurance services and other agreed-upon procedures engagements
(iii) Taxation services
(iv) Other services.

RDR – to disclose total fees incurred for services other than audit or review and provide a general description of services, The above breakdown is not needed.

It can sometimes be difficult to distinguish between categories. If judgement is required, you may want to discuss allocation with your auditor.

Potential impact on the Group

The Group will need to include an audit fee disclosure to comply with the new requirements.

Managing public funding in an emergency response or recovery

Observations from the OAG

While funding and purchasing decisions may need to be made quickly in an emergency response, public entities still need to ensure that there is transparent and accountable decision-making, with the public entity getting value for money, and acting lawfully. In March 2023, the OAG issued their observations to help public sector staff who are setting up and running emergency response and recovery initiatives.

The report available here, covers these topics:

- Core principles for funding and purchasing decisions
- Consistent, transparent application processes and clear criteria provide a strong foundation
- Reasons for awarding funding should be clearly explained and well documented
- Managing conflicts of interest helps protect trust and confidence
- A high-trust approach needs post-payment verification to mitigate the risk of fraud and error
- Clear expectations need to be set for the staff involved
- Consider where and how the funding fits in with performance reporting

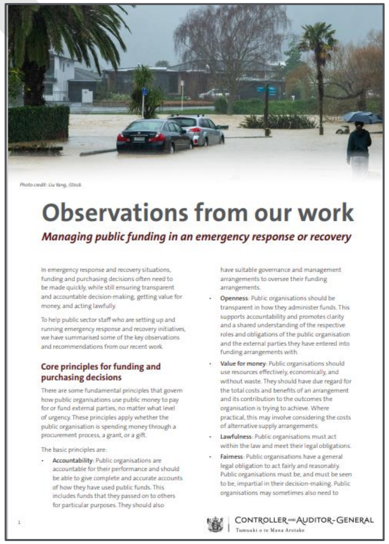

Photo credit: Liu Yang, iStock

Observations from our work

Managing public funding in an emergency response or recovery

In emergency response and recovery situations, funding and purchasing decisions often need to be made quickly, while still ensuring transparent and accountable decision-making, getting value for money, and acting lawfully.

To help public sector staff who are setting up and running emergency response and recovery initiatives, we have summarised some of the key observations and recommendations from our recent work.

Core principles for funding and purchasing decisions

There are some fundamental principles that govern how public organisations use public money to pay for or fund external parties, no matter what level of urgency. These principles apply whether the public organisation is spending money through a procurement process, a grant, or a gift.

The basic principles are:

- **Accountability**: Public organisations are accountable for their performance and should be able to give complete and accurate accounts of how they have used public funds. This includes funds that they passed on to others for particular purposes. They should also have suitable governance and management arrangements to oversee their funding arrangements.
- **Openness**: Public organisations should be transparent in how they administer funds. This supports accountability and promotes clarity and a shared understanding of the respective roles and obligations of the public organisation and the external parties they have entered into funding arrangements with.
- **Value for money**: Public organisations should use resources effectively, economically, and without waste. They should have due regard for the total costs and benefits of an arrangement and its contribution to the outcomes the organisation is trying to achieve. Where practical, this may involve considering the costs of alternative supply arrangements.
- **Lawfulness**: Public organisations must act within the law and meet their legal obligations.
- **Fairness**: Public organisations have a general legal obligation to act fairly and reasonably. Public organisations must be, and must be seen to be, impartial in their decision-making. Public organisations may sometimes also need to

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Controller and Auditor-General
Tumuaki o te Mana Arotake

Core principles for funding and purchasing decisions [Extract]

There are fundamental principles that govern how public organisations use money to pay for or fund external parties, no matter what level of urgency.

The principles are:

- *Accountability*
- *Openness*
- *Value for money*
- *Lawfulness*
- *Fairness*
- *Integrity*

Climate and carbon reporting update

Recent developments to be aware of

How does this affect your organisation?

Organisations that do not fall under the mandatory CRD regime or the CNGP can still expect the ripple effects of these key mandates through their suppliers and customers who are captured. Included in the link below are all entities that are captured by the CNGP.

Suppliers and customers may request and eventually require (through updated procurement policies) that organisations they deal with measure emissions and have targets in place to reduce them. They may also eventually request confirmation that organisations have built in resilience to climate change into their overall strategy and financial decision making.

New Zealand activity

Climate-related disclosures (CRD)

In October 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill was passed and received Royal Assent. Climate-related disclosures are now mandatory in relation to reporting periods commencing on or after 1 January 2023 for:

- large listed companies with a market capitalisation of more than $60 million;
- large licensed insurers,
- registered banks,
- credit unions,
- building societies and managers of investment schemes with more than $1 billion in assets; and
- some Crown financial institutions (via letters of expectation).

In December 2022, the External Reporting Board (XRB) issued the standards that set out the framework for reporting, these are the Aotearoa New Zealand Climate Standards.

Carbon Neutral Government Programme (CNGP)

In December 2020, the New Zealand Government launched the CNGP to make a number of organisations within the public sector carbon neutral from 2025. This impacts on:

- Tranche 1 organisations: Government departments, departmental agencies, and executive branch are mandated to comply with requirements
- Tranche 2 organisations: Crown agents are mandated via a whole of government direction to comply
- Tranche 3 organisations: Certain tertiary institutions, legislative branch, offices of parliament, and state owned enterprises are encouraged to comply

A full list of CNGP participants is located here.

International activity

The International Financial Reporting Standards (IFRS) Foundation created the International Sustainability Standards Board (ISSB). The ISSB will deliver a global baseline of sustainability disclosures to meet the needs of capital providers.

In June 2023, the ISSB issued IFRS S2 *Climate-related Disclosures* which drew heavily from the existing Taskforce on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) frameworks.

The International Organisation of Securities Commissions (IOSCO), the Australian Securities and Investment Commission (ASIC) and the Australian Accounting Standards Board (AASB) have supported the publication of IFRS S2.

The XRB in New Zealand is closely monitoring these international standard setting developments.

In Europe, the European Financial Reporting Advisory Group (EFRAG) released the final version of the Corporate Sustainability Reporting Directive (CSRD) in December 2022 which has far-reaching implications for companies beyond the EU. Climate is one aspect of these standards which otherwise cover wider Environmental, Social, and Governance (ESG) areas.

Appendices

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment
We obtain an understanding of changes in your business and environment in order to identify and assess the risks of material misstatement of the financial statements. Our initial assessment and planned audit responses are included in section 1.

Scoping
The scope of our audit work is based on:
- our judgement of materiality, and
- the extent of procedures required to be performed across the group's operating locations and subsidiaries.

In our final report
In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report, including key audit matters if applicable.

Understand the control environment
We also obtain an understanding of the control environment, sufficient to identify and assess the risks of material misstatement of the financial statements.
Our approach to internal control is summarised in section 1.

Significant risk assessment / areas of audit focus
Based on our understanding of the Group and key changes / developments during the year, we have identified our areas of audit focus in section 1.

Perform and evaluate
Perform audit procedures as planned and evaluate the sufficiency and appropriateness of audit evidence.

Quality and Independence
We confirm all Deloitte network firms and engagement team members are independent of the Group. We take our independence and the quality of the audit work we perform very seriously.

Materiality

Our approach to materiality

Establishing an appropriate materiality level

Establishing an appropriate materiality level is critical to our risk identification process and is an important variable in designing and evaluating the results of our audit procedures. We determine materiality by considering a range of both qualitative and quantitative factors when applying our professional judgement.

Basis of our materiality benchmark

- The audit partner will determine materiality as part of our pre-year end fieldwork in August, based on professional judgement, the financial measures most relevant to users of the financial statements and other requirements under the auditing standards.
- We expect to use expenses as the benchmark for determining materiality.
- The benchmark utilised in our determination of materiality will be assessed against final year end performance and revised if necessary.

Other compliance matters

There are a range of matters we are required to report to you as part of our communications to management and the directors.

Related Party Transaction Disclosures

- The Group is required to Identify, account and disclose related party relationships and transactions in accordance with the applicable financial reporting framework.
- We will perform procedures to obtain an understanding of the controls, if any, that the Group has established around identifying, accounting for, and disclosing related party relationships and transactions in accordance with the applicable financial reporting framework; as well as the authorisations and approvals process for significant transactions and arrangements with related parties or those outside the normal course of business.
- We will also identify and assess the risks of material misstatement associated with related party relationships and transactions, including determining whether any of those risks are fraud or significant risks, and design and perform further audit procedures to obtain sufficient appropriate audit evidence.

Compliance with Laws and Regulations

- The Group is also required to ensure that its operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the financial statements.
- We are required to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to understand its nature, and evaluate the effect on the financial statements.

Fraud Characteristics

- In relation to fraud, the primary responsibility for the prevention and detection of fraud rests with management and the directors, including establishing and maintaining internal controls over the reliability of financial reporting.
- We will obtain an understanding of how the directors exercise oversight of the Group's processes for identifying and responding to the risks of fraud and the internal controls that have been established to mitigate these risks, as well as making enquiries of management and the directors to determine whether you have knowledge of any actual, suspected or alleged fraud affecting the Group.

Written Representations

- We will request a number of written representations in a representation letter, relating to each of these areas, including that appropriate disclosure of all matters has been made to the auditor.

Prior year unadjusted differences

Financial differences

We take this opportunity to remind you of the unadjusted difference identified in the prior year. Unadjusted differences in the prior year had no impact on profit before tax but would have increased assets and equity (revaluation reserve) by $321k. The unadjusted difference reported in the prior year is included below.

Unadjusted misstatements identified	Assets Dr/(Cr)	Liabilities Dr/(Cr)	Equity Dr/(Cr)	Profit or loss Dr/(Cr)
Percy Thomson Trust's financial assets carried at cost, revalued for consolidation purposes	321,097		(321,097)	
Total	321,097		(321,097)	

We obtained written representations from management and the Council confirming that after considering this uncorrected item in the context of the consolidated financial statements taken as a whole, no adjustments were required.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously, and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

Planning	Pre-year end fieldwork	Year end fieldwork	Post reporting activities
• Planning meetings with management and the Committee • Engagement letters, audit proposal letter and discussion of audit fees • Discussion of the scope of the audit	• Risk assessment procedures • Discussion of fraud risk assessment • Evaluating controls and performing testing (including walkthroughs) • Perform interim testing over sensitive expenditure	• Update risk assessment procedures • Year-end audit field work • Year-end closing meetings • Read Annual Report commentary if provided before audit signoff *	• Read Annual Report if not provided earlier * • Attend final Committee meeting • Signing audit report in respect of the Percy Thomson Trust financial statements and service performance information • Signing audit reports in respect of the Council financial statements and service performance information • Report to the OAG
2024 Audit Plan	Interim audit update report to the directors	Final report to the Committee	Any additional reporting as required
June - July 2024	August 2024	October 2024	November - December 2024

Ongoing communication and feedback

In addition to the formal communication plan above, we anticipate ongoing dialogue with the Chair of the Committee outside of the audit window, to discuss significant audit matters on an ongoing basis and not just at the time of the audit.

* We are required to read the other information to consider if there are any material inconsistencies which we are obliged to report on. We will need sufficient time to perform the review.

Your client service team

Team member	Role
Pam Thompson Audit Engagement Partner +64 4 831 2438 pthompson@deloitte.co.nz	• Responsible for overseeing the service delivery • Key point of contact for the Council and the Committee members • Responsible for the development and execution of our audit plan
Luke van der Walt Audit Associate Director +64 4 470 3591 luvanderwalt@deloitte.co.nz	• Responsible for management of the audit and overseeing our response to technical accounting issues • Key point of contact for management and the finance team
Kate Kenna Audit Assistant Manager +64 4 495 3939 kkenna@deloitte.co.nz	• Responsible for supervision of the audit team onsite, working alongside Pam and Luke in ensuring an effective, efficient audit process