

Audit and Risk Subcommittee
Wednesday 24 June 2020 at 1.00pm

AGENDA

Audit and Risk Subcommittee Agenda

Meeting to be held in the Council Chamber
36 Water Street, Whangārei
on Wednesday 24 June 2020, commencing at 1.00pm

Recommendations contained in the agenda are NOT decisions of the meeting. Please refer to minutes for resolutions.

MEMBERSHIP OF THE AUDIT AND RISK SUBCOMMITTEE

Chairperson, NRC Councillor Colin Kitchen

Councillor John Bain

Councillor Amy Macdonald

Councillor Joce Yeoman

Independent Financial Advisor
Geoff Copstick

Independent Audit & Risk
Advisor Danny Tuato'o

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TITLE: Risk Management update

ID: A1329034

Executive summary/Whakarāpopototanga

The presentations that will be presented at the meeting are listed below.

Recommendation

That the presentations:

31 Risk Management update.

be received.

Attachments/Ngā tapirihanga

Nil

Authorised by Group Manager

Name: Dave Tams

Title: Group Manager, Corporate Excellence

Date:

TITLE: Awanui River Project update

ID: A1329037

Executive summary/Whakarāpopototanga

The presentations that will be presented at the meeting are listed below.

Recommendation

That the presentations:

- 1 Awanui River Project update.
be received.
-

Attachments/Ngā tapirihanga

Nil

Authorised by Group Manager

Name: Dave Tams

Title: Group Manager, Corporate Excellence

Date:

TITLE: Confirmation of Minutes -15 April 2020


ID: A1327159

From: Judith Graham, Corporate Excellence P/A

Recommendation

That the minutes of the Audit and Risk Subcommittee meeting held on 15 April 2020 be confirmed as a true and correct record.

Attachments/Ngā tapirihanga

Attachment 1: Confirmation of Minutes - 15 April 2020 [!\[\]\(0b5e7e25e8775f7e7e80906ada4f0021_img.jpg\)](#) 

Authorised by Group Manager

Name: Dave Tams

Title: Group Manager, Corporate Excellence

Date:

Audit and Risk Subcommittee
15 April 2020

Audit and Risk Subcommittee Minutes

Minutes from audit & risk subcommittee meeting held remotely
on Wednesday 15 April 2020, commencing at 10.00am

Present:

Chairperson, FNDC Councillor Colin Kitchen
Councillor John Bain
Councillor Amy Macdonald
Councillor Joce Yeoman
Ex-Officio Penny Smart
Independent Financial Advisor Geoff Copstick

In Attendance:

Full Meeting

CEO Malcolm Nicolson
GM Corporate Excellence Dave Tams
Finance Manager Simon Crabb
PA Corporate Excellence Judy Graham
Business support Robyn Valentine
Mr Danny Tuato'o

Part Meeting

AON - Matthew Wilson
AON – Deanna MacDonald
Deloitte – Peter Gulliver
IT Manager – Carol Cottam
HR Manager – Beryl Steele
Policy manager – Kym Ace

The Chair declared the meeting open at 10.01am.

Apologies (Ngā whakapahā) (Item 1.0)

There were no apologies.

Welcome to first meeting and acknowledged both new and experienced committee members.
Welcome to Danny Tuato'o audit & risk new independent members.

Housekeeping: Ensure you are firesafe within your bubble and have an escape plan should it be necessary. Make sure you have working smoke alarms (checked) and that all power points are safe.

Mr Tuato'o introduced himself. His Focus on audit and policy.

Audit and Risk Subcommittee
15 April 2020

Declarations of Conflicts of Interest (Nga whakapuakanga) (Item 2.0)

It was advised that members should make declarations item-by-item as the meeting progressed.

Insurance Overview (Item 3.1)

ID: A1297094

Report from Simon Crabb, Finance Manager

Matthew Wilson from AON insurance gave a presentation on overview of who AON are, what they do for councils.

Noted that Covid-19 from insurance perspective is not an insurable event as there is a pandemic/infectious diseases exclusion clause
Class action suits coming to the fore now as well, suits were opt-in now may become opt-out which means that the settlements may be significantly higher.

Number of questions asked from all members of subcommittee Matthew Wilson from AON will answer in more detail by email.

Mr Danny Tuato'o to catch up with Corporate Excellence Group Manager to view extent of cover/exclusions.

Secretarial Note: Chair – Councillor Kitchen advised that Items (3.3) & (3.4) will be addressed following Item (3.5)

Risk Management Policy, Framework and reporting concepts (Item 3.2)

ID: A1283662

Report from Kym Ace, Corporate Systems Champion

Corporate Systems Champion Kym Ace gave a brief overview on what the new risk framework will look like. Current register is Excel spreadsheet which offers basic reporting. The Promapp risk module will give an overview of risks and then gives inherent / residual risks – highlights the top risks and who is responsible along with control sign off/escalates risk if necessary. *Secretarial Note: Councillor Yeoman advised that Item 3.1 and 3.2 had not been Moved & Carried both items 3.1 & 3.2 moved by Yeoman and Second by MacDonald*

Moved (Yeoman /Macdonald)

Item 3.1

That the report 'Insurance Overview' by Simon Crabb, Finance Manager and dated 18 March 2020, be received.

Item 3.2

1. That the report 'Risk Management Policy, Framework and reporting concepts' by Kym Ace, Corporate Systems Champion and dated 4 February 2020, be received.
2. That the revised policy, framework, reporting and implementation plan, as attached (Appendix one to four) is accepted.

Carried

ID: A1306248

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Audit and Risk Subcommittee
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Health & Safety Update (Item 3.3)

ID: A1295118

Report from Beryl Steele, Human Resources Manager

HR manager gave a presentation and update on where Northland Regional Council is around H&S.

- Changing H&S committee structure – update of members – more responsibility for reps
- Risk register – overhauled, in line with overall risk register
- Risk assessments – forms updated
- Internal Comms – more on express
- Reporting – was good but dropped in March, more reporting needed.
- HSNO – updated and improved. Working on lab process
- Training database – review and revamp with bring ups
- Traffic management plans sign off from NTA – training traffic controllers

Moved (Yeoman / Kitchen)

Presentation by HR Manager Beryl Steele be received.

Carried

Cyber Security Update (Item 3.4)

ID: A1294318

Report from Carol Cottam, Information Services and Technology Manager

IT Manager gave an update on cyber security project action plan noted it is different to Deloitte's plan - difference around what's in place around budget. Training with staff occurred which has returned. Writing a plan for ongoing issues that are coming up.

Moved (Bain / MacDonald)

That the report 'Cyber Security Update' by Carol Cottam, Information Services and Technology Manager and dated 9 March 2020, be received.

Carried

Northland Regional Council - High level Audit Plan for the year ended 30 June 2020 (Item 3.5)

ID: A1294915

Report from Deloitte – Perter Gulliver

Intro from Peter Gulliver from Deloitte - appointed to audit Northland Regional Council for year ended June 2020, may need supplementing given the new environment due to COVID.

Page 4 – approach to audit and timeline and reporting

Page 6 – audit risk and focus – materiality threshold and how it meets organisation requirements – to be set when June figures comes through – Discussed areas of focus for audit for the council plus additional areas required by OAG

Page 7 timetable of audit

ID: A1306248

3

Audit and Risk Subcommittee
15 April 2020

GM Corporate Excellence gave overview of sub-committee – Peter Gulliver has been an auditor in the government sector for number of years, Northland Regional Council has very competent team and we have a collaborative and informative relationship – controls environment consistent with previous years and operating well.

Independent GST Review (Item 3.6)

ID: A1297039

Report from Simon Crabb, Finance Manager

Independent GST Review 47

Engaged Findex to undertake review on GST for the financial year. Treatment GST on revenues rating revenues being undertaken correctly

Unexplained variance about 1% (about \$100,000) - tolerance level +/- 3%

Can claim GST on items under \$50 without GST receipt i.e. parking receipt – only 18 instances equating to about \$50 extra GST claimed.

Moved (Yeoman / MacDonald)

That the report 'Independent GST Review' by Simon Crabb, Finance Manager and dated 18 March 2020, be received.

Carried

General Business - Internal Audit (Item 3.7)

ID: A1296072

Report from Dave Tams, Group Manager, Corporate Excellence

No further business

Conclusion

The meeting concluded at 12.25pm.

TITLE: 2019-20 Annual Report: Timetable and Deloitte Planning Report

ID: A1329230

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

As part of the 2019-20 Annual Report process, Deloitte have prepared a planning report outlining their planned approach, and the key areas of focus for this year's audit. This report is attached as **Attachment 1**.

Peter Gulliver of Deloitte (Audit Partner) will attend the June Audit and Risk Subcommittee meeting to discuss the 2019-20 planning report, and answer any questions.

Recommendation

That the report '2019-20 Annual Report: Timetable and Deloitte Planning Report' by Simon Crabb, Finance Manager and dated 18 June 2020, be received.

Background/Tuhinga

A schedule of the high-level milestone dates for the 2019-20 Audit programme is presented over the page.

The signed Deloitte Audit proposal letter setting out the estimated audit hours and audit fee for the coming three years is attached (**Attachment 2**) for the committee's information.

The Deloitte Audit Engagement letter outlining the nature and limitations of the audit, as well as the respective responsibilities of council and Deloitte is also attached (**Attachment 3**) for the committee's information.

Date	2019-20 Annual Report Summarised Milestones
30 March 2020	Deloitte - Planning Visit (2 weeks remote)
15 June 2020	Deloitte - Interim Audit (2 weeks onsite)
30 June 2020	Year End Close off
15 July 2020	Creditor & Debtor - Accrual Close
16 July 2020	Investment Property Revaluations (require valn by 6/7)
17 July 2020	Rates Reconciliations (require info from District Councils by 10/7)
24 July 2020	Fixed Assets (note 11 months capitalised in May) Infrastructure Asset revaluation
27 July 2020	Externally Managed Fund Valuations (req Valn by 22/7)
18 August 2020	August Council Meeting (agendas due 7 Aug) *
21 August 2020	AR Document Complete (3 wks. Parent only no consolidation)
24 August 2020	Deloitte - field staff arrive on site for 3 Week Final
11 September 2020	
28-Aug-2020	* Week 1 Audit Debrief- Geoff Copstick and Danny Tuato'o in attendance
10-Sep-2020	* Week 2 Audit Debrief- Geoff Copstick and Danny Tuato'o in attendance
3 September 2020	Consolidated figures (ready for Deloitte in week 3)
4 September 2020	Tax review at Crowe Horwath
30 September 2020	Audit & Risk Subcommittee - Deloitte Report/Clearance
20 October 2020	Adoption of Annual Report (agendas due 9 Oct)

Attachments/Ngā tapirihanga

Attachment 1: Deloitte Planning Report 2019-20 [↓](#) 

Attachment 2: Deloitte Proposal Letter for 2020, 2021 and 2022 financial years [↓](#) 

Attachment 3: Deloitte Audit Engagement Letter [↓](#) 

Authorised by Group Manager

Name: Dave Tams

Title: Group Manager, Corporate Excellence

Date:

Deloitte.



Northland Regional Council

Planning Report to the Audit and Risk Subcommittee
for the year ended 30 June 2020

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1. Planning report

- A. Partner introduction
- B. Our audit explained
- C. Identifying the areas of audit focus
- D. Areas of audit focus
- E. Continuous communication and reporting



2. Appendices to the planning report

Appendix 1: Purpose of report and responsibility statement



To navigate within this report, you may click on the icons on the right hand side of the page





A. Partner introduction


Thank you for the opportunity to present our audit plan for the financial statement audit of Northland Regional Council for the year ending 30 June 2020.

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. Our report includes our audit plan, including key areas of audit focus and our planned procedures.

We have an evolving audit plan that is established with input from management. The audit plan is tailored to Northland Regional Council's environment and revised throughout the year to adjust for business developments, additional relevant matters arising, changes in circumstances and findings from activities performed.

This plan is intended for the Audit and Risk Subcommittee (and other Council members) and should not be distributed further.

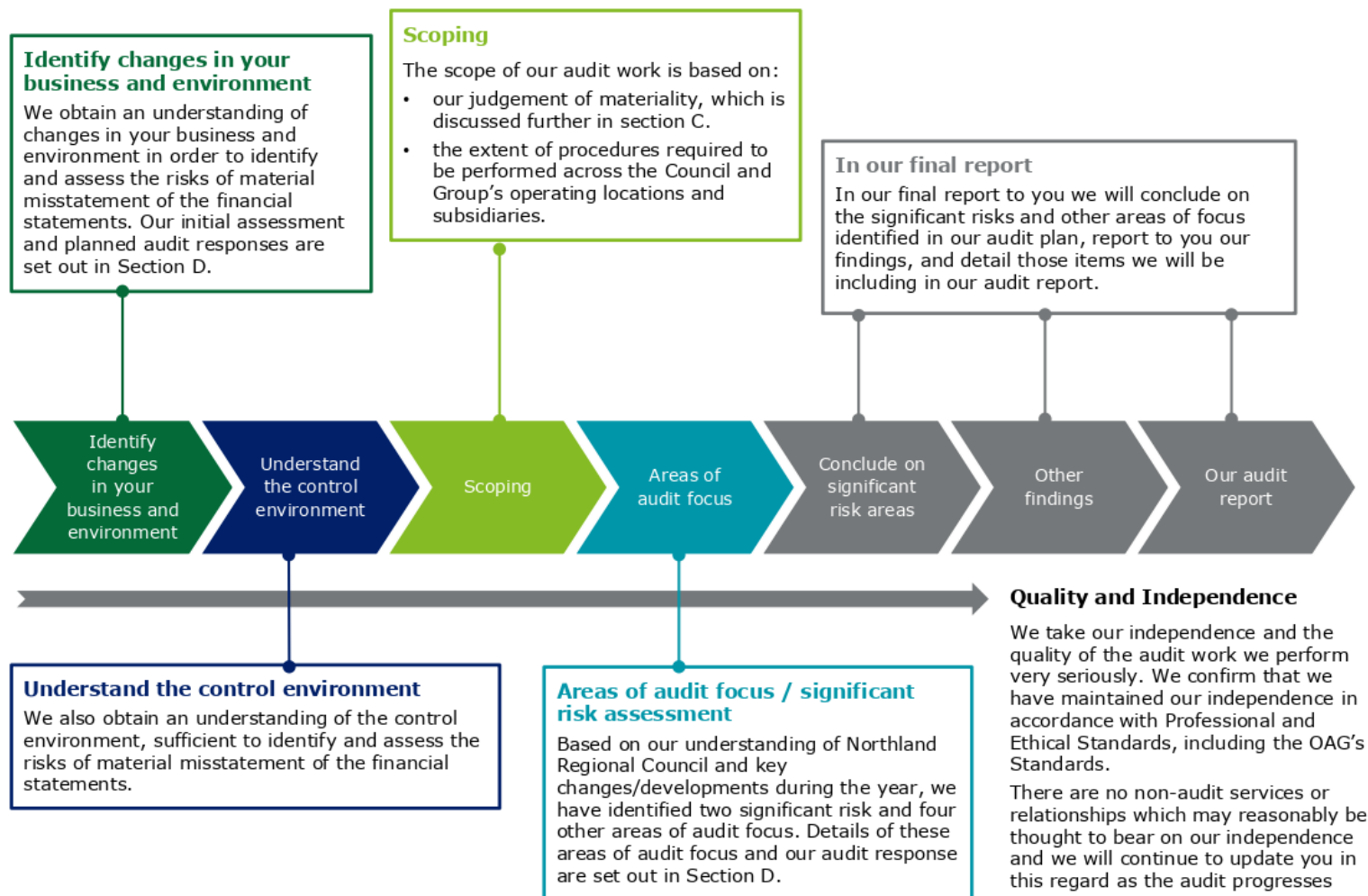
We appreciate the opportunity to serve Northland Regional Council. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.



**Peter Gulliver, Partner
for Deloitte Limited
Auckland | 18 June 2020**



B. Our audit explained – a tailored approach



C. Identifying the areas of audit focus

Identification of audit risks

Our audit approach is underpinned by the identification of relevant audit risks and tailoring appropriate audit responses to address those risks. We consider a number of factors when deciding on the significant areas of audit focus, such as:

- the risk assessment process undertaken during the planning phase of our engagement;
- the impact of Covid-19 on the financial statement line items;
- our understanding of the business risks faced by Northland Regional Council;
- discussions with management during the course of our audit;
- the significant risks and uncertainties previously reported in the financial statements, including any NZ PBE IPSAS IAS 1 critical accounting estimates or judgements;
- our assessment of materiality; and
- any changes in the business and the environment it operates in since the last annual report and financial statements;

The next page summarises the significant risks and other areas that we will focus on during our audit.

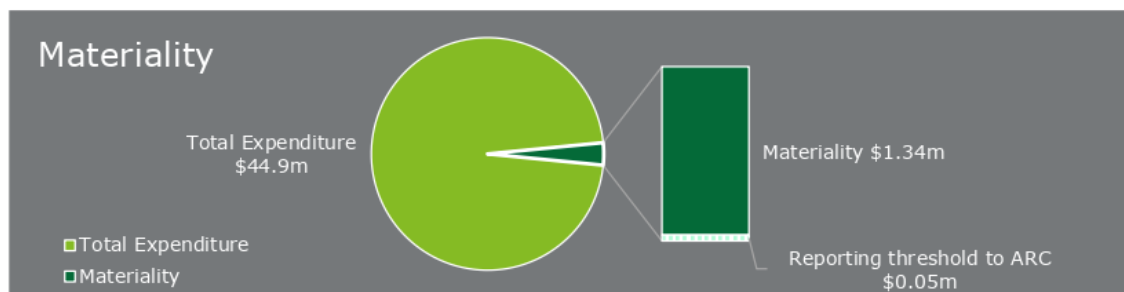
We continually update our risk assessment as we perform our audit procedures, so our areas of audit focus may change. We will report to you on any significant changes to our assessment as part of our final report to the Audit and Risk Committee.

Determining materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Our quantitative preliminary materiality for the 2020 audit as shown below is based on total expenditure per the 2020 annual plan. This is deemed to be a key driver of business activity, is a critical component of the financial statements and is a focus for users of those statements. We will update our preliminary materiality assessment once actual total expenditure for the 2020 year is determined.

The extent of our procedures is not based on materiality alone but also on local considerations of subsidiaries of Northland Regional Council, the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.



D. Areas of audit focus – dashboard

Area of audit focus	Significant risk	Fraud risk	Planned controls testing approach	Level of management judgement required
Asset valuations and assessment of carrying value	No	No	D+I	●
Governance and valuation of investment assets	No	No	D+I	●
Validity of fees and charges revenue	Yes	Yes	D+I	●
Rates setting – legislative compliance	No	No	D+I OE	●
Impact of Covid-19	No	No	N/A	●
Management override of controls	Yes	Yes	D+I	N/A

Planned approach to controls

D+I: Testing of the design and implementation of key controls

OE: Testing of the operating effectiveness of key controls

Level of management judgement required

● ● ●

Low High



D. Areas of audit focus

Area of audit focus	Our approach
<p>Asset valuations and assessment of carrying values</p> <p>NRC recognises the following classes of asset at fair value in the current year:</p> <ul style="list-style-type: none"> • Infrastructure assets; • Land and buildings; • Investment properties; • Emissions trading units; • Forestry assets <p>Determining the fair value of assets requires management and independent valuers to make a number of judgments around the appropriate valuation methodology and assumptions. Valuation outcomes are often sensitive to variations in the key assumptions.</p> <p>This gives rise to a risk around the valuation of these assets at year-end and the treatment of movements in fair value during the year.</p>	<p>The impact of Covid-19 potentially introduces an increased level of uncertainty around the valuation of certain assets, particularly those items which are valued on the basis of market based observations of yield and rental incomes (such as investment property). Depending on the approach taken by the valuers this increased uncertainty around the assumptions and drivers of value may require additional disclosure in Council's financial statements and potentially our audit report.</p> <p>Our work plan incorporates the following steps:</p> <ul style="list-style-type: none"> • Obtain the independent valuations of the relevant asset classes; • Obtain representations directly from the independent valuers confirming their valuation methodology; • Review the key underlying assumptions used by the independent valuers to determine whether these assumptions were reasonable and in line with the relevant financial reporting and valuation standards. • Assess the appropriateness of the assumption in light of the impact of Covid-19; • Hold various discussions with the valuers as appropriate; • Determine whether the revaluation transactions are correctly accounted for and disclosed in the financial statements. If there is significant valuation uncertainty noted as a result of Covid-19, ensure that this has been adequately disclosed in the financial statements; and • Consider any caveats included in the valuation. <p>The valuation approach for the Kensington development will also be specifically considered.</p> <p>We also understand that Council has approved the sale of the assets relating to the Marsden Point Rail Link (MPRL). Council has investment property assets, development property assets and a receivable asset relating to MPRL. We will work with management to ensure the appropriate accounting treatment and disclosure which will depend on the timing of the sale transaction (pre or post year end) and the classification of the assets.</p>



D. Areas of audit focus

Area of audit focus	Our approach
<p>Governance and valuation of investment assets</p> <p>NRC has a significant portfolio of investment assets including property, funds under management and a controlling stake in Marsden Maritime Holdings which holds 50% of the region’s port.</p> <p>The strategy around the use of this investment portfolio and the returns received are an important component of Council’s funding of its activities. Council has consistently reviewed its property portfolio and as a consequence a number of properties have moved between owner occupied properties, investment properties and being identified for disposal.</p> <p>This gives rise to risks around the robustness of governance processes around these investments, the valuation of the investments at year-end, and whether the appropriate accounting treatment has been applied in respect of those valuations, of movements in value and gains/losses on sale during the year, and in the classification of items held for sale at year-end.</p>	<p>We plan to address these risks through:</p> <ul style="list-style-type: none">• Evaluating the governance processes and controls around investment assets. This will involve determining whether investment mandates and parameters are monitored as part of governance arrangements, including the risk/return strategy employed and the adequacy of reporting in this area;• Ascertaining the quality of controls in place at the investment manager and custodian by obtaining internal control audit reports;• Reviewing the accounting treatment applied to investment assets against relevant financial reporting standards;• Reviewing the calculation of investment asset fair values at year-end; and• Reconcile and validate the cash movements in and out of the investment funds






D. Areas of audit focus

Area of audit focus	Our approach
<p>Validity of fees and charges revenue</p> <p>There is a risk that fees and charges revenue may be misstated if they are calculated incorrectly or revenue is recognised incorrectly.</p> <p>We have identified this as our presumed risk of fraudulent revenue recognition as required by auditing standards.</p>	<p>We plan to test a sample of fees and charges revenue for accuracy and to review the recognition policy and practice against relevant financial reporting standards to ensure the revenue is recognised at the right time.</p>



D. Areas of audit focus



Area of audit focus	Our approach
<p>Rates setting – Legislative Compliance</p> <p>Over recent years there have been a number of issues within the Local Government sector arising from rates not being set in accordance with the Local Government (Rating) Act 2002(LGRA). Compliance with the detail of the LGRA is critical: if the rate is not within the range of options and restrictions provided for in that Act, it may not be valid.</p> <p>Management and Council need to continue 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 that year, and the Revenue and Financing Policy in the respective LTP or Annual Plan (AP).</p>	<p>We plan to undertake the following procedures:</p> <ul style="list-style-type: none">• Testing the controls around the rates setting process at Council;• Where applicable reviewing relevant legal documentation and correspondence with legal advisors;• Completing a 'rates questionnaire' compiled by the OAG, (similar to that completed in the prior year), to assist us in assessing legislative compliance in a broader sense with respect to rates. <p>We note that we are not legal experts and we recommend Council continue to have their legal advisor review the documentation supporting the setting of rates to confirm legislative compliance.</p>

E. Other areas of audit focus

Area of audit focus	Our approach
<p>Impact of Covid-19</p> <p>Covid-19 continues to rapidly evolve, and has already had a significant impact on the operations of many organisations.</p> <p>Entities must carefully consider their unique circumstances and risk exposures when analysing how recent events may affect their financial reporting. Specifically, financial reporting and related financial statement disclosures need to convey all material effects of Covid.</p> <p>For Northland Regional Council the FY20 impacts will likely manifest themselves in relation to investment property revaluation uncertainties (refer earlier area of focus), and the level of provisioning required for rates receivables and receivables due for other income items.</p>	<p>We have maintained regular contact with management over the last 3 months in particular to ensure we understand the Council's position with respect to Covid-19, including for the FY20 year subject to audit, but also FY21 where the Annual Plan required additional consideration with respect to areas where income would be reduced and costs removed or deferred.</p> <p>With respect to FY20 our work will include additional emphasis on:</p> <ul style="list-style-type: none"> • Provision for doubtful debts on other receivables such as fees and charges; • The provisioning approach for rates receivables given the likely additional financial stress amongst the rate payer base; • Fair value measurements, particular on investment properties; • The recognition and disclosure of grant income received to provide support to certain sectors of the community; • Recognition and disclosure of wage subsidies claimed; and • Disclosures made in the financial statements <p>When Council prepares its annual report, it is particularly important to provide ratepayers with appropriate insight into the risks and uncertainties facing the organisation and the judgements that have been made in preparing financial information.</p> <p>We have also advised management that the Office of the Auditor General requires all audit report for public entities to make reference to Covid-19, and in particular draw attention to the disclosures made in the annual report through an "emphasis of matter" paragraph to be included in the audit report. We will work with management to ensure an appropriate level of disclosure.</p>



E. Other areas of audit focus

Area of audit focus	Our approach
<p>Management override of controls</p> <p>We are required to design and perform audit procedures to respond to the risk of management's override of controls.</p>	<p>We plan to:</p> <ul style="list-style-type: none"> • 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 bias 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. • 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.



E. Other areas of audit focus

Other matters including OAG audit brief requirements and proposed response

Area of audit focus	Our approach
<p>Fraud</p> <p>The primary responsibility for the prevention and detection of fraud rests with management of the Council, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As your auditor, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.</p> <p>ISA (NZ) 240 <i>The auditor’s responsibility to consider fraud in an audit of financial statements</i> requires us to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks.</p>	<p>Throughout the financial year we remain alert for issues that indicate fraud. Any concerns will be raised with management for clarification in the first instance. The Council should be aware that Deloitte is required to inform the OAG immediately where any fraud is discovered.</p> <p>Specifically our work will involve:</p> <ul style="list-style-type: none">• Formal inquiries of the Council, management and others within the entity regarding the risks of fraud within the Council including the processes in place to mitigate those risks;• Documenting systems and internal controls used by the Council to prevent and detect fraud. In this area we will raise any weaknesses with management and the Council as applicable;• Remaining alert for the existence of any confidentiality clauses in employment contracts that may prevent disclosure of information and thus reduce the level of transparency of spending of public monies; and• Reviewing the current fraud policy to ensure it follows OAG guidance and ensure management and employees are aware of the fraud policy and its content.



E. Other areas of audit focus

Other matters including OAG audit brief requirements and proposed response

Area of audit focus	Our approach
Performance, waste and probity Ensuring that Parliament's expectations are met with respect to use of rate payer funds is a key feature of any audit in the public sector.	<p>Our audit approach will include a specific programme of work, as in previous years, covering the following aspects:</p> <ul style="list-style-type: none">• Confirming Council has the appropriate policy framework for areas such as delegated authorities, fraud, conflicts of interest, code of conduct etc.• Ensuring we understand any changes made to such policies.• Testing certain areas of sensitive expenditure to ensure spending is appropriate and authorised in accordance with policy and best practice.• Reviewing areas such as credit card expenditure, fuel card expenditure, and mobile phone expenditure.
Managing conflicts of interest and related party transactions Councils are required to ensure that there are appropriate procedures in place to identify and manage conflicts of interest and that related party disclosures in the financial statements are complete.	<p>Our audit procedures on related party disclosures include searching public records for potential related party relationships (such as the Companies Office website). We also ensure any entries in the interests register were individually assessed, and those which meet the definition of a related party transaction during the year are disclosed in the Annual Report. This includes remuneration disclosures relating to the Councillors and key management personnel.</p>
Financial prudence Councils are required to include appropriate benchmarking reporting in the Annual Report as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.	<p>Our audit procedures will include review of the disclosures and re-computation of key ratios to determine whether Council is in compliance with these regulations.</p>



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E. Other areas of audit focus

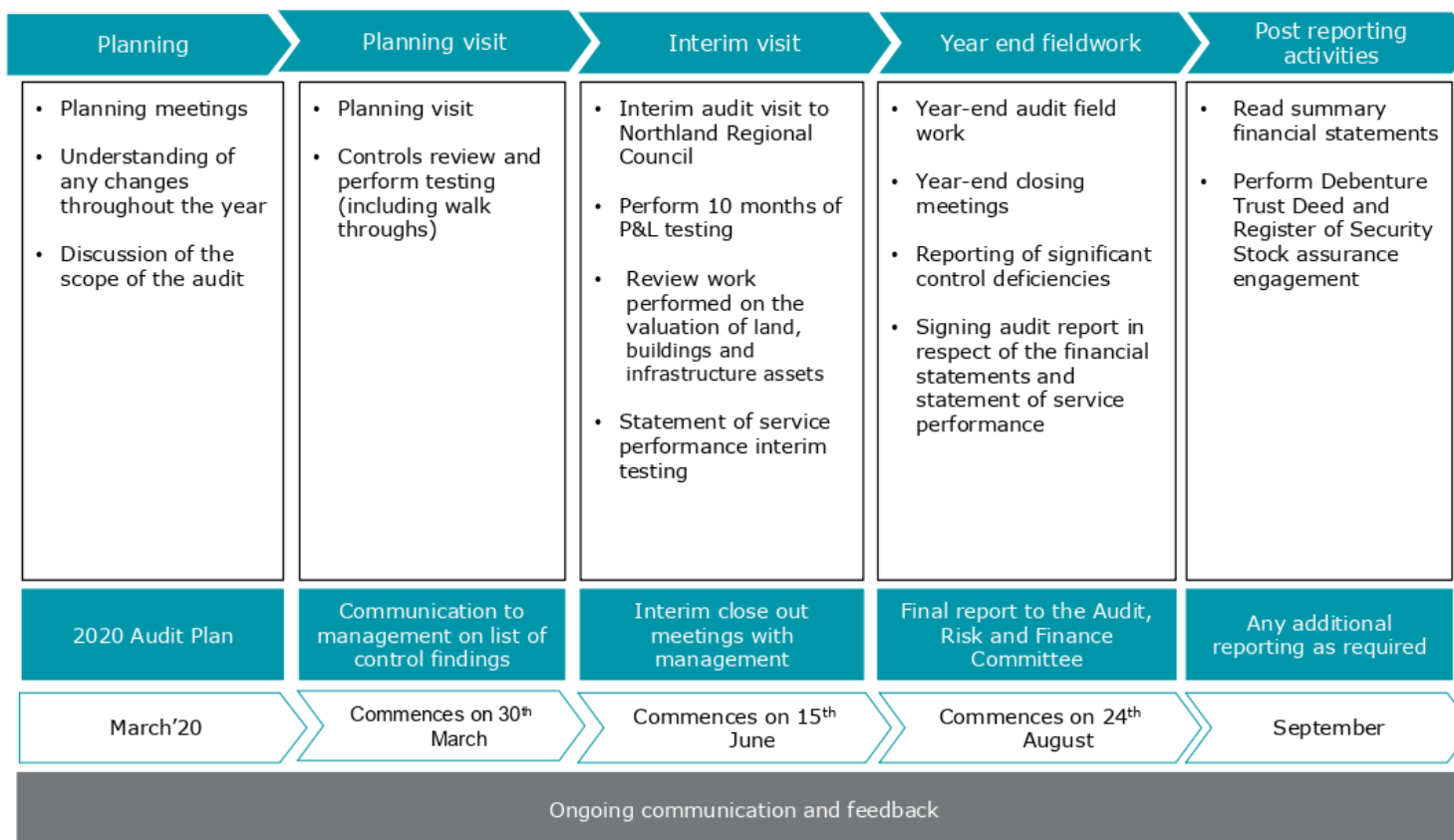
Other matters including OAG audit brief requirements and proposed response

Area of audit focus	Our approach
Legislative compliance <p>The Council is subject to significant regulatory and legislative compliance requirements. The Council needs to have adequate systems in place to monitor compliance with legislation along with any changes occurring in the applicable legislation.</p> <p>The key pieces of legislation that Council needs to be compliant with, as it pertains to the Annual Report include:</p> <ul style="list-style-type: none">• the Local Government Act 2002• the Local Government (Financial Reporting and Prudence) Regulations 2014• the Non-Financial Performance Measures Rules 2013• the Local Government Borrowing Act 2011• the Local Government (Rating) Act 2002• the Local Government Official Information and Meetings Act 1987• the Local Authorities (Members' Interests) Act 1978	<p>Our audit procedures will look at Council's processes for ensuring legislative compliance. Including specifically testing compliance with legislation that materially impacts on the financial statements. This includes the Local Government Act 2002 and the Local Government (Rating) Act 2002. In particular extensive work is completed on the rates setting process, as outlined in the Areas of Focus section above.</p>
Provincial growth fund <p>The Provincial growth fund represents a \$3billion investment of public money in projects and initiatives which aim to lift productivity potential in New Zealand's regions.</p> <p>Councils are required to account for the fund in accordance with PBE accounting standards and be transparent with their communities about the funding.</p>	<p>We will perform the following:</p> <ul style="list-style-type: none">- review all provincial growth fund contracts;- focus on the risk that revenue may not be recorded in the appropriate accounting period due to incorrect recognition or deferral of revenue. This could arise from incorrectly identifying conditions or restrictions associated with revenue transactions or incorrectly applying the contractual terms associated with the timing of when revenue is recognised;- review disclosures in the annual report.



E. Continuous communication and reporting

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.





Appendix 1: Purpose of report and responsibility statement

Purpose of report

This report has been prepared for Northland Regional Council's Audit and Risk Committee and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business as required by the Auditor General's auditing standards which incorporate the requirements of the New Zealand auditing standards.

This plan is intended for the Audit and Risk 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 Audit and Risk Committee. The ultimate responsibility for the preparation of the financial statements rests with the Council.

Responsibilities

We are responsible for conducting an audit of Northland Regional Council for the year ended 30 June 2020 in accordance with the Auditor General's auditing standards (incorporating the requirements of the New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board). Our audit is performed pursuant to the requirements of the Local Government Act 2002 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. The audit of the financial statements does not relieve management or the Council of their responsibilities.

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





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11 March 2020

Penny Smart
Chair, Northland Regional Council
Private Bag 9021
Whangarei 0148

Copy: Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington

Dear Ms Smart,

Proposal to conduct the audit of Northland Regional Council and subsidiaries on behalf of the Auditor-General for the 2020, 2021 and 2022 financial years

1 Introduction

The Auditor-General proposes to appoint me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the three financial years ending *30 June 2020, 2021 and 2022*. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial years ending *30 June 2020, 2021 and 2022* and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

2 Statutory basis for the audit and how audit fees are set

The audit of your organisation is carried out under Section 15 of the Public Audit Act 2001, which states that "the Auditor-General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited".

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11 March 2020
Northland Regional Council
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Fees for audits of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, Council and I have the opportunity to reach agreement first and recommend those fees for approval. The Auditor-General, with assistance from the OAG, will set audit fees directly only if we fail to reach agreement.

Our proposed audit fees are set out in this letter and include an estimate of the reasonable cost of disbursements (including travel and accommodation where necessary).

3 Entities covered by this proposal

This proposal covers the audit of Northland Regional Council.

A separate proposal will be provided for Northland Inc Limited, even though they are part of the group, due to their separate governing body.

4 Key members of the audit team

Appointed Auditor
Quality Control Reviewer
Audit Manager

*Peter Gulliver
Bruno Dente
Vera Chian*

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audits (compared to budgeted and actual data from the previous financial year):

Audit team member	2019 budget	2019 actual	2020	2021	2022
Appointed Auditor	57	54	50	50	50
Review Partner	15	6	10	10	10
Audit Manager	114	121	100	100	100
Other CA qualified staff	200	286	200	200	200
Non CA qualified staff	280	538	300	300	300
IT and valuation specialists	14	0	20	20	20
Total audit hours	680	1005	680	680	680

5.1 Reasons for changes in audit hours

The major reasons for the changes in hours for your organisation's audit are:

Reasons for increased or decreased audit hours compared to previous period <u>budgeted</u> hours:	2020	2021	2022
N/A			
Total increase (decrease) in audit hours	-	-	-

The table above shows that actual hours to complete the 2019 exceeded budget by 355 hours. We are comfortable with the quality of the information produced by Council and so will be seeking to refine our audit approach for 2020 and beyond such that we can reduce the time spent, particularly by less senior staff members.



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6 Proposed audit fees

Our proposed fees for the next three audits (compared to budgeted and actual data from the previous financial year) are:

Structure of audit fees	2019 budget fees	2019 actual fees charged (*)	2020	2021	2022
	\$	\$	\$	\$	\$
Net audit fee (excluding OAG overhead and disbursements)	117,500	117,500	119,850	122,300	124,800
OAG overhead charge	11,550	11,550	10,500	10,750	11,100
Total audit fee (excluding disbursements)	129,050	129,050	130,350	133,050	135,900
Estimated Disbursements	13,000	18,254	18,000	18,000	18,000
Total billable audit fees and charges	142,050	147,303	148,350	151,050	153,900
GST	21,308	22,096	22,252	22,658	23,085
Total (including GST)	163,358	169,400	170,602	173,708	176,985

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG overhead charge. We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

6.1 Reasons for changes in audit fees

In table 5.1 we showed the factors that have resulted in a change of audit hours. The cost impacts of those changes are shown in the table below.

Reasons for increased or decreased audit fees compared to previous period <u>budgeted</u> fees.	2020	2021	2022
Approximate 2% inflationary movement (reflecting wage inflation)	2,350	2,450	2,500
Total increase (decrease) in audit fees	2,350	2,450	2,500

7 Assumptions relating to our audit fee

You are responsible for the production of your financial statements and anything else that must be audited. Our proposed audit fees are based on the assumption that:

- You will provide to us, in accordance with the agreed timetable, the complete information required by us to conduct the audit.
- Your staff will provide us with an appropriate level of assistance.



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- Your organisation's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review by you before being submitted to us for audit. In particular, data and information relating to non-financial performance measures will be subject to Council's internal quality review processes before it is audited by us, and the process managed so as to facilitate the timely delivery of relevant information for audit testing.
- Your organisation's financial statements will include all relevant disclosures.
- We will review up to two sets of draft annual reports, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website).
- There are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us).
- There are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work (other than as specified in tables 5.1 and 6.1).
- There are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above.
- There are no significant changes to the agreed audit arrangements (set out in an annual letter we will send you) that change the scope of, timing of, or disbursements related to, this audit.
- The revaluation of infrastructure assets occurs once every three years.

If the scope and/or amount of work changes significantly, we will discuss the issues and any implications for our audit costs and your audit fees with you and the OAG at the time.

8 What the OAG overhead charge provides

Parliament has indicated that it expects the full cost of annual audits under the Public Audit Act (including an OAG overhead charge) to be funded by public entities.

The OAG overhead charge partially funds a range of work that supports auditors and entities, including:

- development and maintenance of auditing standards;
- technical support for auditors on specific accounting and auditing issues;
- ongoing auditor training on specific public sector issues;
- preparation of sector briefs to ensure a consistent approach to annual audits;
- development and maintenance of strategic audit plans; and
- carrying out quality assurance reviews of all auditors, and their audits and staff on a regular (generally, three-year) cycle.

Appointed Auditors are required to return the OAG overhead charge portion of the audit fee, to the OAG.



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9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in the audit engagement agreement and schedules.

10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please do not hesitate to contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely,

Peter Gulliver
Partner
For Deloitte Limited
On behalf of the Auditor-General

I accept the audit fees for the audit of the 2020, 2021 and 2020 financial years as stated above.

Full name: Penelope Fiona Smart Position: Chair NRC
Authorised signature: P. Smart Date: 13/3/20
Entity name: Northland Regional Council



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Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to:
Peter Gulliver
Deloitte
Private Bag 115033
Shortland Street
Auckland 1140



Deloitte
Deloitte Centre
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Auckland 1010

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Standard public entity Audit Engagement Letter

17 June 2020

Penny Smart
Chair, Northland Regional Council
Private Bag 9021
Whangarei 0148

Dear Ms Smart

AUDIT ENGAGEMENT LETTER

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all "public entities", including Northland Regional Council, under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Peter Gulliver, using the staff and resources of Northland Regional Council, under section 32 and 33 of the Act, to carry out the annual audits of the Northland Regional Council's financial statements and performance information. We will be carrying out these annual audits on the Auditor-General's behalf, for the years ending 30 June 2020 to 30 June 2022 inclusive.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Council and me, as the Appointed Auditor, for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the Council's financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit. Typically those matters will relate to issues of financial management and accountability.

We will carry out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether Northland Regional Council's financial statements and performance information are free from material misstatement. The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

Your responsibilities

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; and

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- providing us with:
 - access to all information relevant to preparing the financial statements and performance information such as records, documentation, and other information;
 - all other information, in addition to the financial statements and performance information, to be included in the annual report;
 - additional information that we may request from Northland Regional Council for the purpose of the audit;
 - unrestricted access to Council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

In addition, the Council is responsible:

- for the preparation of the summary financial statements and summary performance information;
- for making the audited summary financial statements and summary performance information readily available to the intended users of that information; and

for including our audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that we have reported on that information.

The Council's responsibilities extend to all resources, activities, and entities under its control. We expect that the Council will ensure:

- the resources, activities, and entities under its control have been operating effectively and efficiently;
- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;
- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the Council and/or the individuals within Northland Regional Council with delegated authority, to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred - regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The Council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Annex 1. Annex 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the Council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

The Council should have documented policies and procedures to support its responsibilities. It should also regularly monitor performance against its objectives.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether:

- the financial statements:
 - o present fairly, in all material respects:
 - the Regional Council and Group's financial position as at 30 June;
 - the results of the operations and cash flows for the year ended on that date; and
 - o comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards;



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- the funding impact statement presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Regional Council's annual plan;
- the statement of service provision of the Regional Council, which is referred to in the annual report as the Council activities:
 - o presents fairly, in all material respects, the levels of service for each group of activities for the year ended 30 June, including:
 - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved;
 - the reasons for any significant variation between the levels of service achieved and the intended levels of service; and
 - o complies with generally accepted accounting practice in New Zealand; and
- the statement about capital expenditure for each group of activities presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in Northland Regional Council's annual plan; and
- the funding impact statement for each group of activities presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Northland Regional Council's Long-term plan.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal controls. However, we will communicate to you in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the Council have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the Council obtained and applied the resources of the Council in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the Council have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of a lack of financial prudence.

Our independence

It is essential that the audit team and Deloitte Limited remain both economically and attitudinally independent of Northland Regional Council; including being independent of management personnel and the Council. This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with the objectivity of the audit team and Deloitte Limited.



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To protect our independence, specific limitations are placed on us in accepting engagements with the Council other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any other engagements must be the subject of a separate written arrangement between the Council and myself or Deloitte Limited.

Reporting

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee of the audit report.

In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This audit report will contain an opinion that provides the same level of assurance as the audit report on the full financial statements and full performance information.

We will also issue a management letter that will be sent to the Council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Council. Typically those matters will relate to issues of financial management and accountability. We may also provide other management letters to Northland Regional Council from time to time. We will inform Northland Regional Council of any other management letters we have issued.

Please note that the Auditor-General may publicly report matters that are identified in the annual audit, in keeping with section 21 of the Public Audit Act 2001.

Next steps

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the enclosed copy of the letter in the space provided and returning it to me. The terms will remain effective until a new Audit Engagement Letter is issued.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible. If after contacting me you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours faithfully/sincerely

A handwritten signature in black ink, appearing to be "PG" or similar initials, followed by a horizontal line.

.....
Peter Gulliver
Partner
For Deloitte Limited
On behalf of the Auditor-General



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I acknowledge the terms of this engagement and that I have the required authority on behalf of the Council

Signature:

Name:

Title: Date:



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Annex 1 – Respective specific responsibilities of the Council and the Appointed Auditor

Responsibilities for the financial statements and performance information	
<i>Responsibilities of the Council</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</p> <p>You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p>	<p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> - present fairly, in all material respects: <ul style="list-style-type: none"> - the financial position as at 30 June; and - the financial performance and cash flows for the year then ended; - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards. <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> - presents fairly, in all material respects, the performance for the year ended 30 June; - the performance achievements as compared with forecasts included in the statement of performance expectations for the financial year; and - the actual revenue and expenses as compared with the forecasts included in the statement of performance expectations for the financial year. - complies with generally accepted accounting practice in New Zealand. <p>We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements and performance information.</p> <p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and</p>



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	<p>disclosures that, in our judgement, are likely to influence the audit report addressee's overall understanding of the financial statements and performance information.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for you to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> - the appropriateness of accounting policies used and whether they have been consistently applied; - the reasonableness of the significant accounting estimates and judgements made by those charged with governance; - the adequacy of the disclosures in the financial statements and performance information; and - the overall presentation of the financial statements and performance information. <p>We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> - the adoption of the going concern basis of accounting is appropriate; - all material transactions have been recorded and are reflected in the financial statements and performance information; - all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and - uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p>
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Responsibilities for the accounting records	
Responsibilities of the Council	Responsibilities of the Appointed Auditor
<p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> - correctly record and explain the transactions of the public entity; - enable you to monitor the resources, activities, and entities under your control; - enable the public entity's financial position to be determined with reasonable accuracy at any time; - enable you to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and - are in keeping with the requirements of the Commissioner of Inland Revenue. 	<p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p>

Responsibilities for accounting and internal control systems	
Responsibilities of the Council	Responsibilities of the Appointed Auditor
<p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the public entity), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and - where applicable - performance information reporting.</p>	<p>The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information.</p> <p>We will report to you separately, on any significant weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.</p>

Responsibilities for preventing and detecting fraud and error	
Responsibilities of the Council	Responsibilities of the Appointed Auditor
<p>The responsibility for the prevention and detection of fraud and error rests with you, through the implementation and continued operation of adequate internal control systems (appropriate to the size of the public entity) supported by written policies and procedures.</p> <p>We expect you to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect you to consider reporting all instances of actual, suspected, or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect you to immediately inform us of any suspected fraud where you, and/or any individuals within Northland Regional Council with delegated authority have a reasonable basis that suspected</p>	<p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> - obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and - report to you any significant weaknesses in internal control that come to our notice. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected, or alleged fraud.</p> <p>As part of the audit, you will be asked for written confirmation that you have disclosed all known</p>



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fraud has occurred - regardless of the amount involved.	<p>instances of actual, suspected, or alleged fraud to us.</p> <p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from you, or management, or by any other means, we will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report the fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so, if it is appropriate for the purposes of protecting the interests of the public.</p>
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Responsibilities for compliance with laws and regulations	
<i>Responsibilities of the Council</i>	<i>Responsibilities of the Appointed Auditor</i>
You are responsible for ensuring that the public entity has systems, policies, and procedures (appropriate to the size of the public entity) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of the public entity are complied with. Such systems, policies, and procedures should be documented.	<p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> - the relevance of the law or regulation to the audit; - our assessment of the risk of non-compliance; - the impact of non-compliance for the addressee of the audit report <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws and regulations.</p>

Responsibilities to establish and maintain appropriate standards of conduct and personal integrity	
<i>Responsibilities of the Council</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a "Code of Conduct" and, where applicable, support the "Code of Conduct" with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to</p>	<p>We will have regard to whether you maintain high standards of conduct and personal integrity – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of the public entity may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance.</p>



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<p>accepted "Codes of Conduct" that apply to the public sector.</p>	<p>We will report to you and to the Auditor-General all significant departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p> <p>The Auditor-General, on receiving a report from us, may, at his discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p>
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Responsibilities for conflicts of interest and related parties	
<i>Responsibilities of the Council</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p>	<p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions.</p> <p>Depending on the circumstances, we may enquire whether you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p>

Responsibilities for publishing the audited financial statements on a website	
<i>Responsibilities of the Council</i>	<i>Responsibilities of the Appointed Auditor</i>
<p>You are responsible for the electronic presentation of the financial statements and performance information on the public entity's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If the audit report is reproduced in any medium, you should present the complete financial statements, including notes, accounting policies, and any other accountability statements.</p>	<p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on your website is beyond the scope of the annual audit.</p>



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Annex 2 – Health and safety of audit staff

The Auditor-General and Audit Service Providers 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 you to keep our audit staff safe while they are working at your premises. We expect you to provide a safe work environment for our audit staff. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

TITLE: \$10M Loan Repayment

ID: A1328789

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

Council currently has total external borrowings of \$19.6M made up of four loans with the LGFA totalling \$9.6M, and one loan of \$10M acquired from corporate investors.

The Corporate loan of \$10M taken out in 2015 is set to mature and be repaid on the 13 August 2020.

It is proposed that the \$10M corporate loan is repaid and a subsequent loan of \$5.2M is taken with the Local Government Funding Agency (LGFA). The borrowing reduction of \$4.8M represents the Net Funds held by council that are dedicated to repaying debt.

Recommendation

That the report ' \$10M Loan Repayment ' by Simon Crabb, Finance Manager and dated 17 June 2020, be received.

Background/Tuhinga

Council currently has total external borrowings of \$19.6M made up of four loans with the LGFA totalling \$9.6M, and one loan of \$10M acquired from corporate investors.

The Corporate loan of \$10M was taken out for 5 years in 2015, and is set to mature and be repaid on the 13 August 2020.

The targeted rates collected to repay the \$10M loan were set over a period ranging from 25 to 60 years to provide a level of affordability and intergenerational equity to the affected communities. As such, the full \$10M has not been fully recovered yet, and there remains a level of debt owing from the affected communities and still to be collected via future targeted rates.

In addition, there have been capital river works of \$1,983,607 undertaken during the 2019-20 financial year. These capital works were funded by targeted rates of \$1,175,024 collected in 2019-20 and councils working capital of \$808,583. The working capital component needs to be reimbursed from debt funding.

Thus, it is proposed that council's total borrowings are reduced by \$4,796,343 on the 13 August 2020 as illustrated in Table 1.

Table 1			
Borrowing 30 June 2020:			\$19,558,000
Historical Targeted Rates (held in IIF)		-\$1,922,389	
Marsden Point Rail Link Property (held in IIF)		-\$3,812,628	
2019-2020 River Works not borrowed yet		\$808,583	
Additional LGFA Borrower notes on new loan		\$130,091	
Total Repayment with funds held			-\$4,796,343
Revised Borrowing 13 August 2020			\$14,761,657

The revised Borrowing of \$14,791,657 will be allocated as presented in Table 2.

Table 2		
Awanui River Works		\$928,764
Whangarei Urban River Works		\$8,762,121
NEST loan ²		\$3,750,000
Regional wide River Works		\$1,037,640
Borrower Notes Retained by LGFA		\$283,132
Total Allocation of Borrowing¹		\$14,761,657

¹ values are subject to change by year end.

² The Nest Loan will be repaid from the proceeds owing from Northland Emergency Service Trust (NEST) that are due in May 2023

All the projects listed in Table 2 have a dedicated funding source that will be collected over time to ensure all of councils borrowing will be totally repaid.

It should be noted that the outstanding amounts pertaining to the river works projects are tracked and recorded in individual reserves within council's financial information system.

The Sequence of events required to repay the \$10M corporate loan and initiate a new LGFA loan to reflect the overall decrease in council borrowing of \$4,796,343 is presented in Table 3.

Table 3		
Repayment Sequence		
1 Submit Paperwork for New Loan from LGFA	6/08/2020	\$5,203,657
2 Receive Loan Funding ex LGFA	7/08/2020	\$5,073,566
3 Withdraw Funds from the IIF ³	7/08/2020	\$5,735,018
4 Repay Corporate Loan	13/08/2020	-\$10,000,000
5 Reimburse Working Capital for the 19-20 River Works	13/08/2020	-\$808,583
Total New Loan Taken from LGFA		\$5,203,658

³ The Withdrawal from the Infrastructure Investment Fund (IIF) of \$5,735,018 comprises the historical Targeted River Rates collected to repay debt (\$1,922,389), and the borrowings allocated to the purchase of Marsden point Rail link properties (\$3,812,628).

The \$5,203,658 of loan funding received from the LGFA will be invested into the IIF.

Following the completion of the transactions listed in Table 3, Councils Overall borrowings of \$14,761,657 will be structured as per Table 4.

Table 4.		
Borrowing Structure		
2020 Corporate Loan (repaid in Aug 2020)		\$0
2032 LGFA Fixed Coupon Bond		\$2,800,000
2033 LGFA Fixed Coupon Bond (NEST)		\$3,811,000
2034 LGFA Fixed Coupon Bond		\$1,931,000
2034 LGFA Fixed Coupon Bond		\$1,016,000
New LGFA - to be Drawdown in Aug 2020		\$5,203,657
Total Borrowings		\$14,761,657

The cost of borrowing of the Corporate Loan is 3.79%. At the time of writing the cost of borrowing of a 12-year loan with the LGFA is 2.17%. The benefit of this lower cost of borrowing will flow through to the Targeted Ratepayers.

All values presented in this paper are draft and are subject to change by year end. The final figures will be presented to full council in July 2020.

Attachments/Ngā tapirihanga

Nil

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date:

TITLE: Local Government Funding Agency: Becoming a Guaranteeing Member

ID: A1328791

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

It is proposed that council becomes a **guaranteeing member** of the LGFA to obtain the borrowing capacity and agility to secure long term, low cost, loan funding in excess of \$20M for any large projects that may eventuate.

The potential risk of being a guarantor is that Council will guarantee a proportion of the obligations of the LGFA. This proportion is based on a pro-rata of annual rates revenue. As an indication, as at June 2019, if NRC was a guarantor its share of the guarantee would be 0.43%. (E.G. if the LGFA called \$100,000,000 under the guarantee, council would need to contribute \$430,000).

Standards and Poor's have assessed the chances of the guarantee being called as "extremely low", with multiple forms of funding available to LGFA before the guarantee is used.

An independent analysis of the Risk and Benefits associated with becoming a guaranteeing member was undertaken by PricewaterhouseCoopers (PwC). The overall Risk: Benefit ratio was assessed as **low risk with high benefit**.

Council is required to enter in to two legal documents when becoming a guaranteeing member. PricewaterhouseCoopers recommends these two documents are reviewed by council's legal advisors, noting that there is a level of comfort to be taken from the number of councils who have already undertaken legal advice prior to signing these documents.

At March 2020, 66 councils have joined the LGFA with 54 of those councils as a guarantor council.

The PwC report is attached as **Attachment 1**.

Recommendation(s)

1. That the report 'Local Government Funding Agency: Becoming a Guaranteeing Member' by Simon Crabb, Finance Manager and dated 17 June 2020, be received.
2. That a legal review is undertaken on the legal documents required to be executed to become a guaranteeing member of the LGFA.
3. That, subject to a satisfactory legal review, the Subcommittee endorse a recommendation to full council that Northland Regional Council becomes a guaranteeing member of the LGFA.

Background/Tuhinga

The Local Government Funding Agency (LGFA) is an AA+ rated council-controlled organisation (CCO) that provides loan funding to the local government sector on terms that are more favourable than commercially available

On 13 December 2016, council passed a resolution to join the Local Government Funding Agency (LGFA) scheme as a borrower and non-guarantor. As a non-guarantor member, council can borrow up to a maximum of NZ\$20 in aggregate from the LGFA.

It is proposed that council becomes a guaranteeing member of the LGFA.

Council consulted on becoming a guaranteeing member of the LGFA in the 2018-2028 Long Term Plan.

At the time of writing, council has total borrowings of \$9.6M with the LGFA. However, as a result of the proposal to redraw \$5.2M of funds from the LGFA, councils total aggregated LGFA borrowings would become \$14.8M.

At the time of writing, the borrowing rate of a 12-year loan for a guaranteeing member was 2.07% per annum. The comparable rate for a non-guarantor member was 2.17%.

Potential risk.

The potential risk to being a guarantor is Council guarantees a proportion of the obligations of the LGFA. All guarantor councils share this risk on a pro-rata basis based on their annual rates revenue. As an indication, as at June 2019 if NRC was a guarantor its share of the guarantee would be 0.43%. This means if LGFA called \$100,000,000 under the guarantee, council would need to contribute \$430,000.

Standards and Poor's have assessed the chances of the guarantee being called as "extremely low, with multiple forms of funding available to LGFA before the guarantee is used.

LGFA have never had to call on guarantor councils for any of their obligations.

Council is guaranteeing the obligations of the LGFA only and not other councils. It is LGFA's view that if a council defaulted on its debt this would be unlikely to trigger a call under the guarantee. LGFA would put a Statutory Manager in place and then seek to recover the debt over time through a special rate. LGFA has plenty of access to liquidity so the fact that a council did not repay a loan would not create a problem for LGFA in terms of managing the cashflow.

Independent Assessment of Potential Risk

Alex Wondergem, a partner at PwC who specialises in Treasury Management and Debt Funding was engaged by council staff to prepare a summary of the risks of becoming a guaranteeing member.

The overall risk:benefit ratio of becoming a LGFA guarantor was assessed as low risk with high benefits.

Legal Documents

To become a guaranteeing member Council is required to enter in to two legal documents.

- The Guarantee and Indemnity; and
- The Equity Commitment Deed

PwC recommends these legal documents are reviewed by council's legal advisors, also noting that there is a level of comfort to be taken from the number of councils who have already undertaken legal advice prior to entering into these documents. At March 2020, 66 councils have joined the LGFA with 54 of those councils as guarantor council.

Considerations

Options

No.	Option	Advantages	Disadvantages
1	Do nothing	<p>Save the costs of a legal review upon the LGFA documentation.</p> <p>Do not become a party guaranteeing a portion of the indebtedness of the LGFA.</p>	<p>Council will need to obtain its debt in excess of \$20M (aggregated) via trading banks or a private placement.</p> <p>These options generally offer shorter term debt whereas longer term intergenerational debt matches closer with infrastructure expenditure.</p> <p>The borrowing cost of obtaining debt from trading banks or a private placement is typically higher than that sourced from the LGFA - this additional cost will be passed on to the community.</p>
2	Undertake a legal review of on the legal documents required to be executed to become a guaranteeing member of the LGFA.	Obtain legal assurance (prior to entering a binding agreement) to make an informed decision and avoid any unforeseen obligations arising at a later date.	Incur the cost of a legal review.
3	Endorse a recommendation to full council that Northland Regional Council becomes a guaranteeing member of the LGFA.	Should full council adopt the proposed recommendation, sourcing longer term debt in excess of \$20M (aggregated) will be available to council at a lower cost – providing certainty and savings for the community.	Become a party guaranteeing a portion of the indebtedness of the LGFA should the LGFA not met its obligations

The staff's recommended option is 2 and 3.

2. Significance and engagement

In relation to section 79 of the Local Government Act 2002, this decision is considered to be of low significance when assessed against council's Significance and Engagement Policy because it has previously been consulted on and is in accordance with the approved Treasury Management Policy.

3. Policy, risk management and legislative compliance

The activities detailed in this report are in accordance with council's Treasury Management Policy and the 2018–28 Long Term Plan

4. Community views

Council consulted on becoming a guaranteeing member of the LGFA in the 2018-2028 Long Term Plan. Close to half (46%) of the submitters agreed with this proposal. 26.5% disagreed with the proposal noting there should be caution when taking on more debt. The remaining submitters were neutral or selected "no option" to the proposal.

5. Financial implications

Borrowing in excess of \$20M in aggregate can be sourced, at a lower cost as a LGFA guaranteeing member than a non-guaranteeing member. The financial risk is council guarantees a proportion of the obligations of the LGFA if the LGFA cannot meet its financial obligations

Being a purely administrative matter Māori Impact Statement and Implementation Issues are not applicable.

Attachments/Ngā tapirihanga

Attachment 1: PricewaterhouseCoopers Report: Becoming a Guaranteeing Member of the Local Government Funding Agency [!\[\]\(e1c624d4757f08486e89482c18364c17_img.jpg\) !\[\]\(fd44bd93e945cfa8875a8962f08e5b64_img.jpg\)](#)

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date:



Northland Regional Council

To:	Simon Crabb
From:	Alex Wondergem
Date:	18 June 2020
Subject:	Becoming a Guaranteeing member of the LGFA

Becoming a guaranteeing member of the LGFA

We understand that Northland Regional Council (NRC) are considering raising additional external debt with the Local Government Funding Agency Limited (LGFA), providing a total outstanding debt amount with the LGFA in excess of \$20 million. As per the Foundation Policy requirements of the LGFA, once a member council passes through a threshold of \$20 million of borrowing through the LGFA, they are required to become a guaranteeing member of the LGFA.

The guaranteeing structure is in place to require guaranteeing members to guarantee the obligations of the LGFA. The guarantee provides for a proportionate liability based on the value of rates collected. This is a key mitigating factor to the potential liability of NRC through becoming a guaranteeing member of the LGFA. Supporting the limited risk presented to NRC, Standard and Poor's recently made the following statement:

"The chances of the guarantee being called are extremely low, with multiple forms of funding available to LGFA before the guarantee is used".

Standard and Poor's currently ascribe a AA+ credit rating to the LGFA with a positive outlook (i.e. may improve to AAA, the highest possible credit rating). This credit rating implies a 0.15% probability of default over the next five years. Therefore, we would assess the risk of becoming a guaranteeing member of the LGFA as low. The benefit to NRC in becoming a guaranteeing member is a substantial increase in access to funding at the lowest possible borrowing costs for a New Zealand local authority. We would therefore assess there being a high degree of benefit in becoming a guaranteeing member of the LGFA.

In order to become a guaranteeing member council, NRC is required to subscribe to two additional legal documents (after a legal review). Below we provide some background information about those documents.

What new documents will NRC become a party to?

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8342, F: +64 9 355 8001, pwc.co.nz



There are two new documents that must be acceded to in order to become a guarantor under the LGFA scheme. These are:

- 1 The Guarantee and Indemnity; and
- 2 The Equity Commitment Deed.

The Guarantee and Indemnity document sets out the conditions under which NRC guarantees the indebtedness of the LGFA. We note that being party to the Guarantee is mandatory when borrowing more than \$20 million from the LGFA.

The Equity Commitment Deed details the mechanisms under which NRC can be called upon under certain circumstances to subscribe for shares in the LGFA (and thus increasing the LGFA's capital).

It is important that NRC read and understand these agreements before entering into them, as the obligations under these agreements are binding. There exists some comfort from 'safety in numbers' (66 member councils as at March 2020 and 54 guaranteeing members), and that other local authorities have had legal advice before entering into these agreements. However, we would note that the circumstances of each council are unique, and NRC should review these documents with their independent legal counsel with its individual circumstances in mind. Please note that the LGFA's legal advisers are Russell McVeagh, so different legal advisers are recommended.

Guarantee and Indemnity:

Under the Guarantee and Indemnity, a local authority guarantees a proportion of the indebtedness of the LGFA. The Guarantee and Indemnity should be considered carefully before being entered into as it creates a contingent liability for NRC. Clauses 2 and 3.1 set out the principal obligations.

There are, however, a number of factors that reduce the risk created by this contingent liability with the LGFA scheme having a number of safeguards built in, to reduce the risk of default and the Guarantee and Indemnity being called upon.

Clauses 3.4 to 3.5 of the Guarantee and Indemnity establish a system under which local authorities share this contingent liability on a pro-rata basis based on their annual rates income.

Under clause 10, the local authority grants a power of attorney to the Security Trustee. This approval should be considered based on NRC's specific approval procedures required for the granting of powers of attorney.



Clause 15 sets out the mechanics for exiting the Guarantee and Indemnity. NRC should note, in particular, that after exiting the Guarantee and Indemnity, a local authority continues to have a contingent liability for indebtedness of the LGFA incurred up to the date of exit. All NRC's outstanding debt would have been repaid upon exit.

Clause 2.3 contains an indemnity that should be considered if NRC have any specific approvals that need to be obtained or completed to grant such accommodations.

Equity Commitment Deed:

Under the Equity Commitment Deed, local authorities may be required to subscribe for Commitment Shares to top up the capital of the LGFA. Clause 4 sets out the conditions under which this option can be exercised.

Clause 6.1 sets out warranties that each local authority must provide. NRC should check that these warranties are able to be made.

Clause 9.5 contains an indemnity that should be considered in terms of the specific approvals or procedures that are needed to grant such dispensations.



Disclaimer

This memo is subject to the engagement letter dated 12 December 2012 and the following restrictions. It is a memo addressed to you Northland Regional Council.

This memo should not be reproduced or supplied to any other party without first obtaining our (PwC New Zealand) written consent. We accept no responsibility for any reliance that may be placed on our memo should it be used for any purpose other than that set out below and in any event we will accept no liability to any party other than you in respect of its contents. In the course of our work we have not verified any of the information provided to us by you, nor have we carried out anything in the nature of an audit. Accordingly, we express no opinion on the reliability, accuracy or completeness of the information provided to us and upon which we have relied. The statements and opinions contained in this memo are based on data obtained from the financial markets and are so contained in good faith and in the belief that such statements, opinions and data are not false or misleading. In preparing this memo, we have relied upon information which we believe to be reliable and accurate. We reserve the right (but will be under no obligation) to review our assessment and if we consider it necessary, to revise our opinion in the light of any information existing at the date of this memo which becomes known to us after that date. This memo must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

TITLE: Interest rate for special reserves in surplus

ID: A1289797

From: Vincent McColl, Financial Accountant

Executive summary/Whakarāpopototanga

This report proposes changing the interest rate applied to reserve balances in excess of \$50,000 surplus

- from 5% as budgeted in the LTP
- to the Short-Term Fund (STF) Investment objective of the 90-day bank bill rate plus 3% per annum. Set at 1 July of each financial year.

Recommendation(s)

1. That the report 'Interest rate for special reserves in surplus' by Vincent McColl, Financial Accountant and dated 18 June 2020, be received.
2. That the Audit and Risk Subcommittee endorse a recommendation to full council that the 90-day bank bill rate plus 3% per annum will be used to calculate the interest attributable to special reserves with balances in excess of \$50,000, reset annually on 1 July.

Background/Tuhinga

In council's Long Term Plan (LTP) it specifies a budgeted internal interest rate of 5% for reserves in surplus (or in credit) of \$50,000 or higher.

This paper recommends that the rate used instead be matched to the STF Statement of Investment Policy and Objectives (SIPO) investment objective of the 90-day bank bill rate plus 3% per annum. For the 2019-20 financial year, this would equate to 4.6% (1.6% + 3%).

This rate will be reset on 1 July of each financial year.

The reserve balances in excess of \$50,000 surplus as at the end of May 2020 are:

- Kaeo River Reserve
- Sporting Facilities Reserve
- Hatea River Reserve
- Waipapa Kerikeri River Reserve
- Far North Transport Reserve
- Emergency Services Reserve

Considerations

1. Options

No.	Option	Advantages	Disadvantages
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1	Endorse the application of 90-day bank bill rate plus 3% per annum when calculating the interest attributable to special reserves with balances in excess of \$50,000	In line with expected returns from where the cash is held.	Slightly lowers interest being gained by unspent reserve funds.
2	Leave the interest rate at of the LTP rate of 5%	Surplus reserves receive marginally more money for credit balances that can be used on later works	Encourages rating and holding of funds rather than doing the work the money was collected for

The staff's recommendation is option 1

2. Significance and engagement

[Significance and Engagement Policy](#) The specifying of internal interest rates is considered to be of low significance because it is part of council's day to day activities.

3. Policy, risk management and legislative compliance

Council's decision to apply interest at a specified rate to surplus reserve funds is consistent with council's policy and legislative requirements.

Further considerations

Being a purely an administrative matter Community Views, Māori Impact Statement, and Implementation Issues are not applicable.

4. Financial implications

Lowering the interest gained by reserves in surplus to 4.6% rather than 5% in 2019-20 would have a total negative impact of \$5,082 on the affected special reserves, and a positive impact of \$5,082 on council's net surplus after transfers to reserves for the eleven months to May 2020.

Attachments/Ngā tapirihanga

Nil

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date:

TITLE: New Regional Rating Collection Reporting (PowerBi Demo)

ID: A1328939

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

The quarterly “Regional Rating Collections” report has been converted into a PowerBi dashboard report in an endeavour to make the data easier to understand.

A 5-minute live demonstration of this PowerBi report will be presented to the Subcommittee to explain the visualisations and note any feedback.

Rollout of this report to full council is scheduled for August 2020, and will include the 2019-20 Q4 rating information.

Recommendation

That the report ‘New Regional Rating Collection Reporting (PowerBi Demo)’ by Simon Crabb, Finance Manager and dated 17 June 2020, be received.

Background/Tuhinga

<<enter text>>

Attachments/Ngā tapirihanga

Nil

Authorised by Group Manager

Name: Dave Tams

Title: Group Manager, Corporate Excellence

Date: