



Nelson City Council
Te Kaunihera o **Whakatū**

OPEN

MINUTE ITEM

ATTACHMENTS

Ordinary meeting of the
Audit, Risk and Finance Committee
Te Kōmiti Kaute / Tūraru / Pūtea

Friday 24 November 2023
Commencing at 9.00a.m.
Council Chamber

Floor 2A, Civic House

110 Trafalgar Street, Nelson

	TABLE OF CONTENTS	PAGE
6	Audit NZ - Audit Engagement Letter for the Long Term Plan 2024-2034	
A.	1852948764-472 - Audit NZ Engagement Letter	2

Item 6: 6 Audit NZ - Audit Engagement Letter for the Long Term Plan 2024-2034:
Attachment 1



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

21 November 2023

Level 3, 335 Lincoln Road
Addington
PO Box 2, Christchurch 8140

Nick Smith
Mayor
Nelson City Council
PO Box 645
Nelson 7040

Ref: EN/LCA/4-0008/L030
Copy: Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington 6140

Copy to: Nigel Philpott, Chief Executive Officer
Nicky McDonald, Group Manager Strategy and Communications
Nikki Harrison, Group Manager Finance

Dear Nick

**Audit engagement letter: audit of the consultation document and long-term plan
for the period commencing 1 July 2024**

This audit engagement letter is sent to you on behalf of the Auditor-General, who is the auditor of all “public entities”, including the Nelson City Council (the Council), under section 14 of the Public Audit Act 2001. The Auditor-General has appointed me, John Mackey, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Public Audit Act 2001, to carry out the audit of the Council’s consultation document and long-term plan (LTP).

This letter outlines:

- the terms of the audit engagement and the respective responsibilities of the Council and me as the Appointed Auditor;
- the audit scope and objectives;
- the approach taken to complete the audit;
- the areas of audit emphasis;
- the audit logistics; and
- the professional fees.

A business unit of the Controller and Auditor-General | www.auditnz.parliament.nz

1852948764-472

1 Specific responsibilities of the Council for preparing the consultation document and the LTP

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for preparing the consultation document and LTP, by applying the Council's own assumptions, in accordance with the Local Government Act 2002 (the Act) (in particular, the requirements of Part 6 and schedule 10) and in accordance with generally accepted accounting practice in New Zealand. We assume that elected members are familiar with those responsibilities and, where necessary, have obtained advice about them.

For clarity, we note the following statutory responsibilities as set out in the Act:

- Section 93 of the Act requires the Council to have an LTP at all Times, and Part 1 of schedule 10 governs the content of the LTP.
- Section 111 aligns the financial information with generally accepted accounting practice.
- Section 83 (with reference to section 93A) sets out the special consultative procedure that the Council is required to follow to adopt the consultation document and LTP.
- Section 93C(4) requires an auditor's report on the consultation document, and section 94 requires a separate opinion on the LTP.

Please note that the audit does not relieve the Council of any of its responsibilities.

Other general terms are set out in the relevant sections of this letter and Appendix 1.

2 Our audit scope

The Act requires us to provide two separate reports, as follows:

- On the consultation document, a report on:
 - whether the consultation document gives effect to the purpose specified in section 93B; and
 - the quality of the information and assumptions underlying the information in the consultation document.
- On the LTP, a report on:
 - whether the LTP gives effect to the purpose in section 93(6); and
 - the quality of the information and assumptions underlying the forecast information provided in the LTP.

Item 6: 6 Audit NZ - Audit Engagement Letter for the Long Term Plan 2024-2034: Attachment 1

We expect our work to assess the quality of underlying information and assumptions to be a single, continuous process during the entire LTP preparation period.

Our focus for the first limb of each opinion will be to assess whether each document meets its statutory purpose. Given the different purposes of each document, we will assess the answers to different questions for each opinion.

Our focus for the second limb of each opinion will be to obtain evidence about the quality of the information and assumptions underlying the information contained in the consultation document and LTP. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the information and assumptions underlying the information contained in the consultation document and LTP, whether because of fraud or error.

Our audit opinions do not:

- provide a guarantee of absolute accuracy of the information in the relevant document;
- provide a guarantee that the Council has complied with all relevant legal obligations;
- express an opinion on the merits of any policy content; or
- include an opinion on whether the forecasts will be achieved.

3 Our approach to this audit

3.1 The content of the consultation document

The Act emphasises the discretion of the Council to decide what is appropriate to include in the consultation document and the associated consultation process. In deciding what to include in the consultation document, the Council must have regard to its significance and engagement policy, and the importance of other matters to the district and its communities.

We will need to understand how the Council has approached the task of applying its significance and engagement policy, and how it has considered the importance of other matters in deciding what to include in the consultation document. This will help inform our assessment of whether the consultation document achieves its statutory purpose.

3.2 Adopting and auditing the underlying information

Before adopting the consultation document, section 93G of the Act requires the Council to prepare and adopt the information that:

- is relied on by the content of the consultation document;

Item 6: 6 Audit NZ - Audit Engagement Letter for the Long Term Plan 2024-2034: Attachment 1

- is necessary to enable the Auditor-General to issue an audit report under section 93C(4); and
- provides the basis for the preparation of the LTP.

The information to be prepared and adopted needs to be enough to enable the Council to prepare the consultation document.

We consider that local authorities will need to have thought comprehensively about how best to meet the requirements of the Act. Consistent with the guidance of Taituara (the Society of Local Government Managers), our view is that core building blocks of an LTP will be needed to support an effective consultation document. This will include, but not be limited to, draft financial and infrastructure strategies and the information that underlies them, including asset management information, assumptions, defined levels of service, funding and financial policies, and a complete set of financial forecasts.

We will work with management to understand the information proposed to be adopted and assess whether it will enable us to issue an audit report under section 93C(4).

In addition, the Time frames to consider and adopt the LTP after the consultation process will be tight. From a practical perspective, it will be important that the Council is well advanced with the preparation of the full LTP when it issues the consultation document. Otherwise, you may find it difficult to complete the work and adopt the full LTP before the statutory deadline. The same is true for the audit work. The more audit work that is able to be completed at the first stage of the process, the less pressure there will be on you and the audit team at the end of the process.

3.3 Control environment

The Council is responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the Council), supported by written policies and procedures, designed to prepare the consultation document and LTP, and to provide reasonable quality information and assumptions underlying the information contained in these documents.

Our approach to the audit will be to identify, confirm, and assess the Council's key processes and controls over the underlying information and the production of both the consultation document and the LTP. The purpose of this assessment is to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions. Our assessment is not for the purpose of expressing an opinion on the effectiveness of the Council's internal controls.

We will carry out a review of the control environment to help us understand the approach taken to develop the consultation document and LTP, develop expectations of what should be included in the consultation document and LTP, and identify areas of potential audit risk. This will involve discussions with elected representatives and selected staff throughout the Council, review of publicly available information about the Council, updating our knowledge

of Council issues developed during recent years, and a review of Council minutes since the last audit review.

Our review of your self-assessment response (see below) and key controls relating to the underlying information and development of the LTP is useful to our initial assessment of audit risk and so the nature and extent of our overall audit work.

3.4 Project management, reporting deadlines, and audit progress

The development of the consultation document and LTP is a significant and complex project, and a comprehensive project plan is required for a successful LTP process. It is also essential that there is commitment throughout the organisation for the project, starting with the elected representatives. The involvement of senior management and elected representatives is important in deciding what to include in the consultation document.

The LTP has complex and inter-related information needs and draws together plans, policies, decisions, and information from throughout the Council and its community. We recognise that the Council will be doing its LTP preparation over an extended period. A more efficient and cost-effective audit can be achieved when audit work and feedback is provided in “real Time” or on an “auditing as you go” basis as the underlying information is developed.

Consequently, we will discuss with you and your staff the Council’s approach to preparing and completing the LTP. We expect that the Council is approaching its preparation on a project basis and recognise that our audit work should “shadow” that project timetable. The success of this “auditing as you go” approach will depend on the Council’s project management of the overall LTP process, which should include time for audit work at appropriate points in the process.

3.5 Self-assessment

To assist our audit planning, we intend to use a self-assessment process to assist with our risk assessment process. The self-assessment requires you to reflect on your most significant issues and risks, governance of the LTP project, and the systems and processes you have in place (particularly to meet the purposes in the Act for the consultation document and the LTP), asset management, performance management and reporting, and financial management.

The LTP self-assessment was sent to you on 28 September 2023.

The self-assessment is similar to those used with our audit of previous LTPs. The information provided through the self-assessment will be confirmed with you through discussion after its completion.

4 Our particular areas of audit emphasis

4.1 Impact of the legislated and planned Sector changes on the Council's forecasts

The response to manage the legislated and planned Sector changes has created significant uncertainty for local government organisations, as well as communities and businesses. The final status of these changes is not yet known including the Council's revenue assumptions and the level of service the Council provides in the future. In addition, the Council will need to consider the impact on its financial and infrastructure strategies, and key underlying assumptions such as population growth, capital expenditure programme and revenue from investments.

We will review Council's approach to considering the impacts and how this has been factored into the underlying policies, strategies and assumptions used to prepare the LTP.

4.2 Financial strategy and infrastructure strategy

The Act requires a local authority to prepare two key strategies as part of the LTP: the financial strategy and the infrastructure strategy.

The purpose of the financial strategy is to:

- facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
- provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.

The purpose of the infrastructure strategy is to:

- identify significant infrastructure issues for the local authority during the period covered by the strategy; and
- identify the principal options for managing those issues and the implications of those options.

The Act expects close alignment between the two strategies, and section 101B(5) allows for them to be combined into a single document.

Although the Act clearly sets the minimum requirements for these strategies, it does not define the only things that can be in a strategy. A good strategy should include what is needed to be a good quality strategic planning document. In the case of the infrastructure strategy, the principles of ISO 55000 should be considered, particularly where the Council is seeking to prepare a best practice strategy.

Item 6: 6 Audit NZ - Audit Engagement Letter for the Long Term Plan 2024-2034: Attachment 1

The Council, in common with the vast majority of councils, could improve its explanations on the effects of changes in land use on its finances.

The Act requires councils to present quantified limits on rates, rate increases, and borrowing. It is important for the Council to explain why it is relevant to use the specific limits set to assess its financial health or prudence.

The Council, in common with the vast majority of councils, could usefully improve its infrastructure strategy in the following ways:

- being clear on the condition of the Council's critical assets and the impact for the management of its infrastructure assets;
- better integration and/or consistency with its financial strategy; and
- clear explanation of the link between assets and the services they support by better description of the levels of service.

Our focus when reviewing both strategies is to assess whether the Council has met the purpose outlined in the Act and presented the strategies in a coherent and easily readable manner. Specifically, we will:

- confirm that the two strategies are appropriately aligned;
- understand the effect of the financial forecasts included in the infrastructure strategy on the prudence of the financial strategy; and
- assess the reasonableness of the prepared forecasts by:
 - understanding how the Council has applied the effect of its assumptions including, allowing for changing demographics, the implications of the changing climate, the condition and performance of critical assets, and levels of service on expenditure decisions and outlined the implications of these decisions in the strategies;
 - reviewing the Council's relationship between its renewal capital expenditure and depreciation expenditure forecasts; and
 - checking that the infrastructure strategy is appropriately inflated.

The Council's financial modelling is a significant component of the underlying information that supports both the financial strategy and infrastructure strategy. We will place particular emphasis on the integrity and effectiveness of the financial modelling of all local authorities.

An additional role played by these strategies is to facilitate accountability to the community. It is critical that these strategies are presented in such a way that they are engaging and informative, and support the presentation of issues, options, and implications presented in the consultation document.

4.3 Assumptions

The quality of the Council's financial forecasts is significantly affected by whether the assumptions on which they are based are defined and reasonable. The Act recognises this by requiring all local authorities to clearly outline all significant forecasting assumptions and risks underlying the financial estimates in the LTP (schedule 10, clause 17). PBE FRS 42, *Prospective Financial Statements* also requires the disclosure of significant assumptions.

We will review the Council's list of significant forecasting assumptions and confirm that they are materially complete. We will also test the application of selected assumptions in the financial forecasts to check that they have been reasonably applied. Finally, we will confirm that:

- all significant forecasting assumptions disclose the level of uncertainty associated with each assumption; and
- for all significant forecasting assumptions, which involve a high level of uncertainty, the uncertainty, and an estimate of the potential effects of the uncertainty, on the financial forecasts are appropriately disclosed in the LTP.

We consider that the significant forecasting assumptions are crucial to the underlying information for the consultation document and will complete our review during our audit of the consultation document.

Climate change assumption

We will pay more attention to the assumptions that the Council has made on climate change and the adequacy of other information and disclosures relating to climate change.

We will review the Council's climate change assumptions to determine whether they are reasonable and supportable. We will assess the quality of the supporting information the Council is using to develop its assumptions and disclosures included in the LTP, the consultation document (if relevant), and the adopted underlying information.

This review will include the Council's consideration of future land use, and the management and development of its infrastructure.

4.4 Quality of asset-related forecasting information

A significant portion of the Council's operations relates to the management of its infrastructure: the roading network and the "three-waters" of water supply, sewerage, and stormwater drainage.¹ These activities typically make up about 55% of operational expenditure and 70% of capital expenditure.

To prepare reasonable quality asset information, the Council needs to have a comprehensive understanding of its critical assets and the cost of adequately maintaining

¹ Flood protection and control works.

and renewing them. An important consideration is how well the Council understands the condition of its assets and how the assets are performing.

In reviewing the reasonableness of the Council's asset-related forecasting information, we will:

- assess the Council's asset management planning systems and processes;
- understand what changes the Council proposes to its forecast levels of service;
- understand the Council's assessment of the reliability of the asset-related information;
- consider how accurate the recently prepared budgets have been; and
- assess how factors such as affordability have been incorporated into the asset-related forecasts prepared.

Depending on what we identify with the above, we may have to complete further detailed testing on the Council's asset-related information.

5 Other matters

5.1 Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of the 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 integrity, objectivity, and independence.

5.2 Publication of the consultation document and adopted LTP on the Council's website

The Council is responsible for the electronic presentation of the consultation document and LTP on its website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the presented data. Please ensure that your project plan allows time for us to examine the final electronic file version of the respective documents, including our audit report, before their inclusion on the website.

We need to do this to ensure consistency with the paper-based documents that have been subject to audit.

6 Audit logistics

6.1 Audit timing

The key dates in the audit timetable are as follows:

Self-assessment provided to Council	28 September 2023
Self-assessment returned to audit team for consideration	8 November 2023
First interim visit (initial assessment of AMPs and Infrastructure Strategy)	27 November 2023
Proposed consultation document available with supporting documentation	5 February 2024
LTP Consultation audit visit (see project plan for key dates and number of visits)	7 February 2024
Audit opinion on consultation document required	14 March 2024
Draft Report to Council on consultation document engagement	15 March 2024
Final Report to Council on consultation document engagement	20 March 2024
Consultation document adoption	21 March 2024
Proposed LTP for adoption available with supporting documentation	7 June 2024
Audit of Final LTP commences	10 June 2024
Audit opinion on adopted LTP required	24 June 2024
Draft Report to Council on LTP engagement	24 June 2024
Final LTP adoption	27 June 2024
Final Report to Council on LTP engagement	8 July 2024

Should we encounter any significant problems or delays during the audit, we will inform you immediately.

We have an electronic audit management system. This means that our auditors will complete most of their work on their laptops. Therefore, we would appreciate it if the following could be made available during our audit:

- a suitable workspace for computer use (in keeping with the health and safety requirements discussed in Appendix 1); and
- electronic copies of key documents.

As noted in section 3.4, our audit work needs to be performed as you develop your underlying information and prepare your consultation document and LTP, to ensure the timely completion of our audit.

To ensure that we meet agreed deadlines, it is essential that the dates agreed are adhered to.

7 Professional fees

Our audit fee, covering both the consultation document and the LTP for the period commencing 1 July 2024, is to be negotiated once the Office of the Auditor-General issues its guidance, as outlined in Appendix 2.

The proposed fee is based on the following assumptions:

- Information required to conduct the audit is complete and provided in accordance with the agreed timelines. This includes the draft consultation document and the full draft financial strategy, draft infrastructure strategy and key underlying assumptions and information that supports the draft consultation document.
- There will be an appropriate level of assistance from your staff.
- All documentation (consultation document, LTP, and all other underlying documentation) provided will be subject to appropriate levels of quality review before submission for audit.
- The consultation document and LTP will include all relevant disclosures.
- We will review, at most, two drafts of each of the consultation document and LTP during our audit.
- We will also review one printer's proof copy of the consultation document and LTP and one copy of the electronic version of the consultation document and LTP (for publication on your website).
- There are no significant changes in the structure or level of operations of the Council impacting on the audit, such as the establishment of a CCO to deliver core functions or a major restructuring of groups of activities.

If the scope and/or amount of work changes significantly (such as a change in direction during the development of the consultation document or between the development of the consultation document and the LTP), we will discuss the issues with you at the time.

If information is not available for the visits as agreed, or the systems and controls the Council use to prepare the underlying information and assumptions cannot be relied on, we will seek to recover all additional costs incurred as a result. We will endeavour to inform you as soon as possible should such a situation arise.

Item 6: 6 Audit NZ - Audit Engagement Letter for the Long Term Plan 2024-2034:
Attachment 1

This fee is exclusive of any subsequent amendments the Council might make to the adopted LTP under section 93D.

We wish to interim bill as work progresses. We propose the following billing arrangements:

	\$
November 2023	TBC
March 2024	TBC
June 2024	TBC
July 2024	TBC
Total	TBC

8 Personnel

Our personnel involved in the management of the audit are:

John Mackey	Appointed Auditor
TBC	Engagement Quality Review Director
Natasha Labuschagne	Audit Manager

We have endeavoured to maintain staff continuity as far as possible.

9 Agreement

Please sign and return the attached copy of this letter to indicate that:

- it is in accordance with your understanding of the arrangements for this audit of the consultation document and LTP for the period commencing 1 July 2024; and
- you accept the terms of the engagement set out in this letter that apply specifically to the audit of the consultation document and LTP and supplement the existing audit engagement letter dated 25 May 2023.

Item 6: 6 Audit NZ - Audit Engagement Letter for the Long Term Plan 2024-2034:
Attachment 1

If there are any matters requiring further clarification, please do not hesitate to contact me.

Yours sincerely



John Mackey
Appointed Auditor

I acknowledge that this letter is in accordance with my understanding of the arrangements of the audit engagement. I also acknowledge the terms of the engagement that apply specifically to the audit of the consultation document and LTP, and that supplement the existing audit engagement letter dated 25 May 2023.

Signed _____

Nick Smith
Mayor, Nelson City Council

Date _____

Appendix 1: Terms of the engagement that apply specifically to the audit of the consultation document and LTP

Objectives

The objectives of the audit of the consultation document and LTP are:

- to provide independent opinions on the consultation document (under section 93C(4) of the Act) and on the LTP (under section 94(1) of the Act) about:
 - whether each document gives effect to the relevant statutory purpose; and
 - the quality of the information and assumptions underlying the information included in each document; and
- to report on matters relevant to the Council's planning systems that come to our attention.

Our audit involves performing procedures that examine, on a test basis, evidence supporting assumptions, amounts, and other disclosures in the consultation document and LTP, and evaluating the overall adequacy of the presentation of information.

We also review other information associated with the consultation document and LTP to identify whether there are material inconsistencies with the audited consultation document and LTP.

Provision of a Report to the Council

At a minimum, we will report to the Council at the conclusion of the engagement. The Report to the Council communicates matters that come to our attention during the engagement and that we think are relevant to the Council. For example, we will report:

- any weaknesses in the Council's systems; and
- uncorrected misstatements noted during the audit.

Please note that the Auditor-General may refer to matters that are identified in the audit of consultation documents and LTPs in a report to Parliament if it is in the public interest, in keeping with section 20 of the Public Audit Act 2001.

Materiality

Consistent with the annual audit, the audit engagement for the consultation document and LTP adheres to the principles and concepts of materiality during the 10-year period of the LTP and beyond (where relevant).

Materiality is one of the main factors affecting our judgement on the areas to be tested and the nature and extent of our tests and procedures performed during the audit. In planning and performing the audit, we aim to obtain assurance that the consultation document and LTP, and the information and assumptions underlying the information contained in these documents, do not have material misstatements caused by either fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence a reader's overall understanding of the consultation document and LTP.

Consequently, if we find material misstatements that are not corrected, we will refer to them in the audit opinion. Our preference is for any material misstatement to be corrected, avoiding the need to refer to misstatements in our opinion.

The standards applied when conducting the audit of the consultation document and adopted LTP

Our audit is carried out in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. In meeting the requirements of this standard, we took into account particular elements of the Auditor-General's Auditing Standards and International Standard on Assurance Engagements 3400: *The Examination of Prospective Financial Information* that were consistent with those requirements.

Responsibilities

General responsibilities

The general responsibilities of the Council for preparing and completing the consultation document and LTP are consistent with those for the annual report, as set out in the audit engagement letter dated 25 May 2023– but noting that the consultation document and LTP include forecast information.

These responsibilities include those set out in Appendix 1 of that audit engagement letter as detailed below:

Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor:

- responsibilities for compliance with laws and regulations; and
- responsibilities to establish and maintain appropriate standards of conduct and personal integrity.

Specific responsibilities

The Council is responsible for:

- maintaining accounting and other records that:
 - correctly record and explain the forecast transactions of the Council;
 - enable the Council to monitor the resources, activities, and entities under its control;
 - enable the Council's forecast financial position to be determined with reasonable accuracy at any time; and
 - enable the Council to prepare forecast financial statements and performance information that comply with legislation; and
- providing us with:
 - access to all information and assumptions relevant to preparing the consultation document and LTP, such as records, documentation, and other matters;
 - additional information that we may request from the Council for the purpose of the audit;
 - unrestricted access to Council members and employees that we consider necessary; and
 - written confirmation of representations made to us in connection with the audit.

Health and safety of audit staff

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015, we need to make arrangements with 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 advice of emergency evacuation procedures and how to report any health and safety issues.

Appendix 2: Team mix and hours for the audit of the consultation document and LTP for the 10-year period commencing on 1 July 2024

	Total hours
Appointed auditor	TBC
Sector specialists	TBC
Audit manager	TBC
Other CA staff	TBC
Staff not yet CA qualified	TBC
Other expert or specialist assistance:	
• Information services	TBC
• Special audit and assurance services	TBC
Total	TBC

Fee calculations

	\$
Net fee	TBC
OAG overhead contribution*	TBC
Total fee (including overhead contribution)	TBC
GST	TBC
Audit fee for the LTP for the period commencing 1 July 2024	TBC

*No OAG overhead is charged in relation to the audit of the LTP.

We will charge disbursements, including travel, on an actual and reasonable basis.