
Strategic Risk and Assurance Committee

Komiti Whakamauru Tuuraru

OPEN MINUTES

Minutes of a meeting of the Strategic Risk and Assurance Committee held in the Council Chamber and via Audio Visual Link, Municipal Building, Garden Place, Hamilton on Wednesday 21 June 2023 at 1.04pm.

PRESENT

Chairperson Ms Keiran Horne
Heamana

Deputy Chairperson Mr Bruce Robertson
Heamana Tuarua

Members Deputy Mayor Angela O’Leary
Cr Maxine van Oosten
Cr Moko Tauariki
Cr Ewan Wilson

In Attendance: Cr Emma Pike
Cr Melaina Huaki (via Audio-Visual Link)
Lance Vervoort - Chief Executive
David Bryant - General Manager People and Organisational Performance
Sean Murray - General Manager Venues, Tourism and Major Events
Blair Bowcott - General Manager Growth
Allan Lightbourne - Chief Information Officer
Dan Finn - People, Safety and Wellness Manager
Julia Kofoed - Insurance Manager
Stephen Halliwell - Water Reform Financial Advisor
Michelle Hawthorne - Governance and Assurance Manager
Marie Snowball - Safety & Wellness Lead
Nicholas Whittaker - Risk Advisor
Aaron Steele - PricewaterhouseCoopers

Governance Team Amy Viggers - Governance Lead
Chantal Jansen and Arnold Andrews - Governance Advisors

The Chair opened the meeting with a Karakia.

1. Apologies – *Tono aroha*

Resolved: (Ms Horne/Mr Robertson)

That the apologies for absence from Mayor Southgate, Cr Hamilton and Cr Naidoo-Rauf are accepted.

2. Confirmation of Agenda – *Whakatau raarangi take*

Resolved: (Ms Horne/ Cr Van Oosten)

That the agenda is confirmed.

3. Declarations of Interest – *Tauaakii whaipanga*

No members of the Council declared a Conflict of Interest.

4. Public Forum – *AAtea koorero*

No members of the public wished to speak.

5. Confirmation of the Strategic Risk and Assurance Committee Open Minutes -29 March 2023

Resolved: (Ms Horne/Mr Robertson)

That the Strategic Risk and Assurance Committee confirm the Open Minutes of the Strategic Risk and Assurance Committee Meeting held on 29 March 2023 as a true and correct record.

6. Chief Executive Report

The Chief Executive took the report as read, noting key points regarding health and safety for staff and Elected Members, overall civil defence and economic prospects, uncertainty around organisational structure changes and noted that the relevant support was in place.

Resolved: (Ms Horne/Cr Wilson)

That the Strategic Risk and Assurance Committee receives the report.

7. Safety and Wellbeing Report - 1 February 2023 to 31 April 2023 (*Recommendation to Council*)

The People, Safety and Wellness Manager spoke to the continual focus on safety progression, the key focus areas and critical risks. Staff responded to questions from Members regarding risk management, remedial assessment of ORA near-miss reporting and measures taken related to critical risks, and night roadwork updates.

Resolved: (Ms Horne/Cr Wilson)

That the Strategic Risk and Assurance Committee:

- a) receives this report; and
- b) recommends that the Council receives the report.

8. Risk Management Report (*Recommendation to the Council*)

The Risk Advisor and the Governance and Assurance Manager took the report as read, noting the purpose of the report relating to risks. Staff responded to questions from Members regarding the report fundamentals and alignment of the timeframes to achieve these priorities.

Resolved: (Ms Horne/Cr van Oosten)

That the Strategic Risk and Assurance Committee recommends that Council receives the report.

9. PwC - Internal Audit Update and Report

PricewaterhouseCoopers staff took the report as read, noting updates on resource consent processes and tax frameworks. Staff responded to questions from Members regarding resource consent delays, the Waka Kotahi Audit timeframes, and tax work frameworks.

Staff Action: *Staff undertook to inform Elected Members as to when the Waka Kotahi Audit would be completed and to report back to the Committee.*

Staff Action: *Staff undertook to inform Elected Members why resource consents were not going ahead rather than deferred, to report back to the Committee.*

Resolved: (Ms Horne/Mr Robertson)

That the Strategic Risk and Assurance Committee receives the report.

10. Organisational Improvement Report

The Water Reform Financial Advisor took the report as read.

Resolved: (Ms Horne/Cr van Oosten)

That the Strategic Risk and Assurance Committee receives the report.

Item 13 (General Insurance Activity Update) and then Item 14 (Compliance Reporting Update) were taken after Item 10 (Organisational Improvement Report) to accommodate availability.

13. General Insurance Activity Update

The Insurance Manager provided an overview regarding the current renewals process and monitoring the market.

Resolved: (Ms Horne/Cr Tauariki)

That the Strategic Risk and Assurance Committee:

- a) receives the report; and
- b) notes the market commentary for the 2023/2024 insurance renewal.

14. Compliance Reporting Update

The Governance and Assurance Manager spoke to the report noting the report draft matters for approval and the current Risk Policy due for review coming to the next Committee meeting. She responded to questions from Members regarding the Policy review process.

Resolved: (Ms Horne/Cr Tauariki)

That the Strategic Risk and Assurance Committee

- a) receives the report; and
- b) receives the updated Fraud and Corruption Management Policy (**Attachment 2**).

Cr Emma Pike left the meeting (1.49pm), and returned (1.52pm) to the meeting during the above item, she was present when the item was voted on.

11. Audit NZ 2022-23 Audit Plan

Audit Plan:

The Chair noted the report was late due to AuditNZ timeframes. The AuditNZ representative spoke to the Audit plan, and responded to questions from Members regarding the Audit frameworks, risks, budget costs, resources and emission measures in conjunction with the Annual Plan and Long Term Plan (LTP).

Year End Accounting Issues:

The Water Reform Financial Advisor provided an overview of the current work and framework, noting the land and building values were not to be re-evaluated this year. He responded to questions from Members concerning reassessment timeframes, and the Engagement Letter responsibilities of both parties.

Engagement Letter:

The Committee recommended to Council that Mayor Southgate signs the Engagement Letter on behalf of the Council.

During the discussion of Item 11 (Audit NZ 2022-23 Audit Plan) Item 12 (2023 Annual Report Accounting Treatment Review) was taken at the direction of the Chair.

12. 2023 Annual Report Accounting Treatment Review

The report was taken as read.

Resolved: (Ms Horne/Mr Robertson)

That the Strategic Risk and Assurance Committee receives the report.

11. Audit NZ 2022-23 Audit Plan - Continued

Fee Proposal Letter:

The audit fees increases were outlined and the purpose of the resetting of the fees and increase was acknowledged. AuditNZ representatives responded to questions from Members regarding base fees for the years 2023 – 2025, areas that will be audited, factors for the increase, IT services and payments, implementation timeframes, and service reporting.

Resolved: (Mr Robertson/Cr van Oosten)

That the Strategic Risk and Assurance Committee:

- a) receives the report;
- b) receives the following late attachments;
 - i. Audit Engagement Letter (2023-2025);
 - ii. Audit Plan 2023;
 - iii. Audit Proposal Letter (2023-2025);
- c) requests staff to work with Audit New Zealand to further negotiate the audit fee based on direction received during the meeting;
- d) recommends that the Council approves the Audit Engagement Letter to be signed by Mayor Southgate;

- e) approves the Audit Proposal Letter (2023-2025) to be signed by Mayor Southgate subject to (c) above being completed.

15. Resolution to Exclude the Public

Resolved: (Ms Horne /Cr Tauariki)

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Confirmation of the Strategic Risk and Assurance Committee Public Excluded Minutes - 29 March 2023) Good reason to withhold) information exists under) Section 7 Local Government) Official Information and) Meetings Act 1987)	Section 48(1)(a)
C2. Legal Risks - Committee Update		
C3. SR4 Loss of Information or Access to Systems and Services		
C4. Organisational Improvement Register - Public Excluded		

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C2.	to maintain legal professional privilege to enable Council to carry out commercial activities without disadvantage to enable Council to carry out negotiations	Section 7 (2) (g) Section 7 (2) (h) Section 7 (2) (i)
Item C3.	to protect information which is subject to an obligation of confidence where disclosure would likely damage the public	Section 7 (2) (c) (ii) Section 7 (2) (h) Section 7 (2) (j)

- interest
to enable Council to carry out commercial
activities without disadvantage
to prevent the disclosure or use of official
information for improper gain or improper
advantage
- Item C4. to prevent the disclosure or use of official Section 7 (2) (j)
information for improper gain or improper
advantage

The meeting went into a public excluded session at 3.00pm.

The meeting was declared closed at 3.36pm.

Strategic Risk & Assurance Committee Meeting 21 June 2023 Appendix Notice –

Please note the following Appendixes have been added to Item 11 Audit NZ 2022-23 Plan Report:

- Appendix 1: Audit Engagement Letter
- Appendix 2: Audit Plan
- Appendix 3: HCC - DRAFT Audit Proposal Letter (2023-2025)

Appendix 1: Audit Engagement Letter



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

15 June 2023

Level 4, 127 Alexandra Street
PO Box 256, Hamilton 3240
Ph 04 496 3099

Paula Southgate
Mayor
Hamilton City Council
Private Bag 3010
Waikato Mail Centre
Hamilton 3240

Dear Paula

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 Hamilton City Council (the City Council), under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audits of the City 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 2023, 2024, and 2025.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the governing body (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 City 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 the City 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.

The council's responsibilities

Our audit will be carried out on the basis that the council, as the governing body, 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
- 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 the City 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;
- making the audited summary financial statements and summary performance information readily available to the intended users of that information; and
- 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 the City 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 Appendix 1. Appendix 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 of the City Council:

- present fairly, in all material respects:
 - its financial position; and
 - its financial performance and cash flows for the financial year; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.

We are also responsible for forming an independent opinion on whether the performance information of the City Council:

- presents fairly, in all material respects, the performance for the financial year, including:
 - its performance achievements as compared with the intended levels of service for the financial year; and
 - its actual revenue and expenses as compared with the forecasts included in the Long-Term Plan and Annual Plan for the financial year; and
- complies with generally accepted accounting practice in New Zealand.

In addition to the above we are also responsible for forming an independent opinion whether:

- the funding impact statement of the City Council, 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 Long-term plan or annual plan;
- the statement about capital expenditure for each group of activities of the City Council, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the Long-term plan or annual plan; and
- the funding impact statement for each group of activities of the City Council, 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 Long-term plan.

We are also required to report on whether the City Council has:

- complied with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report; and
- made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

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 City 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 and the City 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 City 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 and the City 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 Audit New Zealand remain both economically and attitudinally independent of Hamilton City Council; including being independent of management personnel and members of 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 the Audit New Zealand.

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 me or Audit New Zealand.

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 report that will be sent to the council. This report 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 reports to the City Council from time to time. We will inform the council of any other reports 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 letter in the space provided and returning a copy 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 sincerely



Clarence Susan
Appointed Auditor
On behalf of the Auditor-General

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

Signature: _____ Date: _____
Name: Paula Southgate
Title: Mayor

Appendix 1: Respective specific responsibilities of the council (the governing body) and the Appointed Auditor

Responsibilities of the council	Responsibility of the Appointed Auditor
Responsibilities for the financial statements and performance information	
<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; and ◦ the financial performance and cash flows for the financial year; and • comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity 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 financial year, including: <ul style="list-style-type: none"> ◦ the performance achievements as compared with the intended levels of service for the financial year; and ◦ the actual revenue and expenses as compared with the forecasts included in the Long-Term Plan and Annual Plan for the financial year; and • complies with generally accepted accounting practice in New Zealand. <p>In addition to the above we are also responsible for forming an independent opinion whether:</p> <ul style="list-style-type: none"> • the funding impact statement of the City Council, 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 Long-term plan or annual plan;

Responsibilities of the council	Responsibility of the Appointed Auditor
	<ul style="list-style-type: none"> the statement about capital expenditure for each group of activities of the City Council, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the Long-term plan or annual plan; and the funding impact statement for each group of activities of the City Council, 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 Long-term plan. <p>We are also required to report on whether the City Council has:</p> <ul style="list-style-type: none"> complied with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report; and made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence) Regulations 2014. <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 disclosures that, in our judgement, are likely to influence the audit report addressee's overall understanding of the financial statements and performance information.</p>

Responsibilities of the council	Responsibility of the Appointed Auditor
	<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 appropriateness of the content and measures in any performance information; 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>

Responsibilities of the council	Responsibility of the Appointed Auditor
	<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>
Responsibilities for the accounting records	
<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 City Council; • enable you to monitor the resources, activities, and entities under your control; • enable the City Council'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	
<p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the City Council), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and 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 of the council	Responsibility of the Appointed Auditor
Responsibilities for preventing and detecting fraud and error	
<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 the City Council) 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 the City Council with delegated authority have a reasonable basis that suspected fraud has occurred – regardless of the amount involved.</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 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>
Responsibilities for compliance with laws and regulations	
<p>You are responsible for ensuring that the City Council has systems, policies, and procedures (appropriate to the size of the City Council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of the City Council are complied with. Such systems, policies, and procedures should be documented.</p>	<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; and

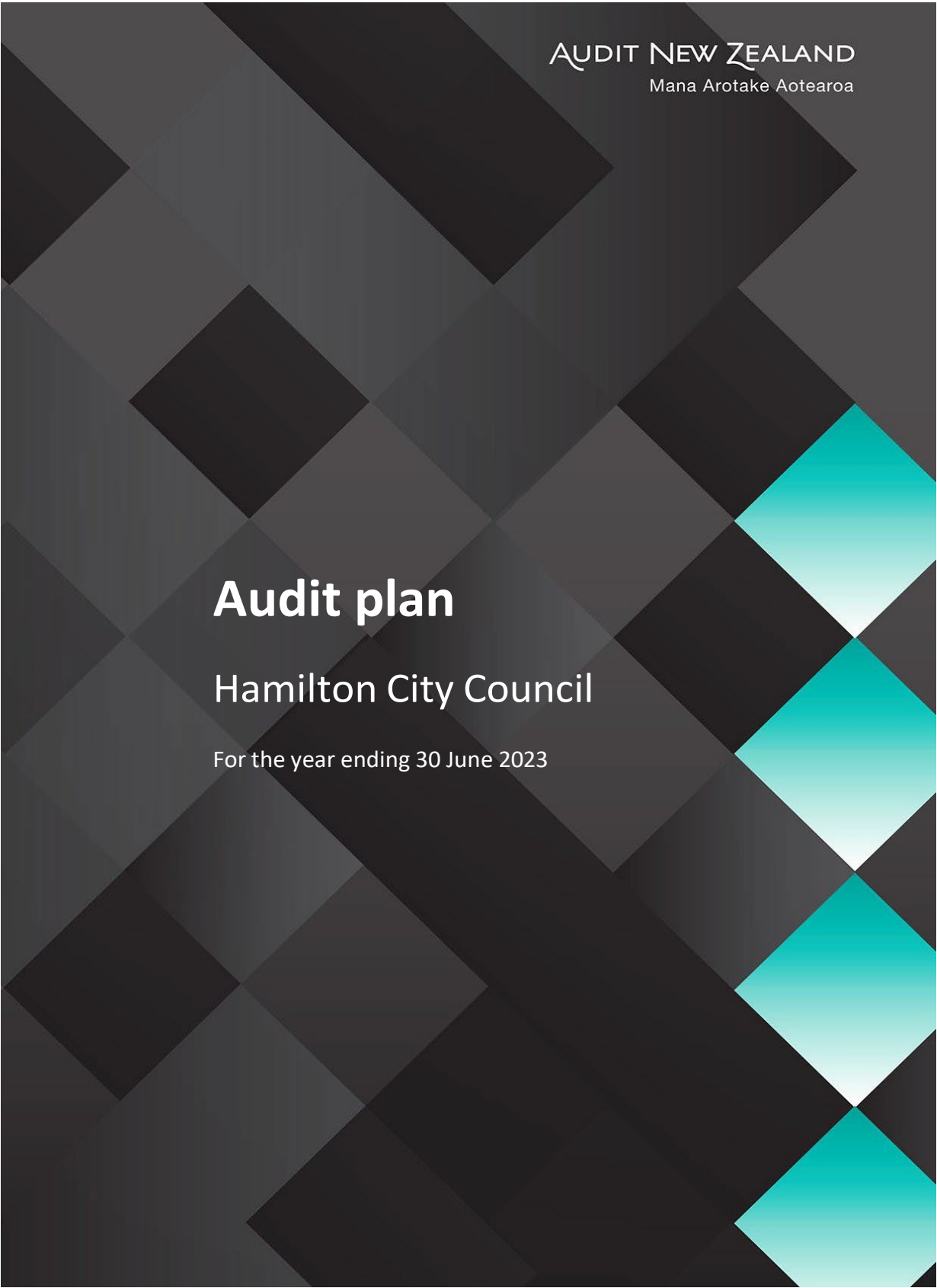
Responsibilities of the council	Responsibility of the Appointed Auditor
	<ul style="list-style-type: none"> the impact of non-compliance for the addressee of the audit report. <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality 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	
<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 accepted "Codes of Conduct" that apply to the public sector.</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 City Council 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. 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>
Responsibilities for conflicts of interest and related parties	
<p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</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>

Responsibilities of the council	Responsibility of the Appointed Auditor
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.	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.
Responsibilities for publishing the audited financial statements on a website	
<p>You are responsible for the electronic presentation of the financial statements and performance information on the City Council'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>	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.

Appendix 2: 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 advising them of emergency evacuation procedures and how to report any health and safety issues.

Appendix 2: Audit Plan



Audit plan

I am pleased to present our audit plan for the audit of Hamilton City Council (the City Council) for the year ending 30 June 2023. The purpose of this audit plan is to discuss:

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The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

Our work improves the performance of, and the public’s trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely



Clarence Susan
Appointed Auditor
16 June 2023

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

Audit risk/issue	Our audit response
Revaluation of assets - revaluation year	
<p>For property, plant and equipment held at fair value PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are conducted with sufficient regularity to ensure that the carrying value does not differ materially from fair value.</p> <p>We understand that the City Council will revalue:</p> <ul style="list-style-type: none"> • parks and gardens; and • roading assets as at 30 June 2023. <p>The roading assets being revalued are a significant portion of the Council's assets and there is a risk that errors in the process or calculation could result in a material misstatement.</p> <p>The reliability of the valuation depends on the valuation method applied, the completeness and accuracy of the source data and the appropriateness of underlying assumptions. Because of the large value of the assets held by the City Council, a small movement in the key assumptions can have a significant impact on the valuation and consequential depreciation expense recognised in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the valuation report to assess the competence and experience of the person completing the valuation and whether the requirements of <i>PBE IPAS 17 Property, Plant and Equipment</i> (including the appropriateness of the valuation basis) have been met; • audit the method of valuing the assets and assess if the valuation method used is in line with the financial reporting framework; • review the reasonableness of the data and key assumptions used; and • assess the presentation and disclosure of information related to the valuation in the financial statements.
The risk of management override of internal controls	
<p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.</p>	<p>We will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We will review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p>

Audit risk/issue	Our audit response
<p>Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud.</p>	<p>For any significant transactions that are outside the normal course of business, or that otherwise appear to be unusual given our understanding of the City Council and its environment and other information obtained during the audit, we will evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.</p>
Fair value assessment for assets - non-revaluation year	
<p>For those assets that the Council is not planning to revalue, the Council should perform a fair value assessment to determine whether there is a significant difference between the fair value and the carrying value. Where the estimated difference is significant a revaluation may be necessary.</p> <p>An assessment should:</p> <ul style="list-style-type: none"> factor in local cost information; utilise relevant and reliable price movement indicators; and involve consulting with valuers, if necessary. <p>Alternatively, Council could engage valuers to assist in preparing a fair value assessment.</p> <p>This year the following asset classes are not revalued:</p> <ul style="list-style-type: none"> 3 Waters, Water Treatment Plant, Wastewater Treatment Plant, Refuse, Land, and Building assets. 	<p>We will review the reasonableness of Council's assessment including the appropriateness of the assumptions used in the assessment.</p> <p>If the movement of the assets individually or in combination with other asset classes is significant the Council may need to complete a revaluation. In certain circumstances it <i>may</i> be acceptable to make an adjustment based on a desktop or indexed revaluation.</p>
Revaluation of investment property	
<p>The Council revalues its investment property annually. The relevant accounting standard is PBE IPSAS 16 Investment Property.</p> <p>The fair value of investment properties needs to reflect the market conditions as at reporting date.</p> <p>Due to the nature and value of the revaluations, any bias or errors in the inputs used or calculations performed could result in a significant misstatement in the value of investment property.</p>	<p>We will:</p> <ul style="list-style-type: none"> review the valuation report and hold discussions with the Council and the valuer to confirm our understanding; review the valuation report to assess whether the requirements of PBE IPAS 16 (including the appropriateness of the valuation basis) have been met; evaluate the qualifications, competence and expertise of the external valuer;

Audit risk/issue	Our audit response
	<ul style="list-style-type: none"> review the valuation method and assess if the applicable method used is in line with the financial reporting framework, including the reasonableness of the data and key assumptions used; and review the accounting entries and associated disclosures in the annual report against relevant accounting standards.
Asset impairment considerations	
<p>In accordance with PBE IPSAS 21, Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash-Generating Assets, at each reporting date management must assess whether there is any indication that an asset may be impaired. If management identifies any indication of an impairment, then they must estimate the recoverable service amount of the asset.</p> <p>Irrespective of whether there are any indications of impairment, intangible assets not yet available for use (i.e. work in progress) and intangible assets with indefinite useful lives must be tested for impairment at least annually.</p> <p>Due to the judgemental nature of the valuations used in assessing impairment there is a risk of bias or error in the assumptions and inputs used. Any bias or errors in the inputs used or calculations performed could result in a material misstatement in the carrying value of property plant and equipment/intangible assets and the related impairment expense.</p>	<p>We will:</p> <ul style="list-style-type: none"> review the impairment assessment; evaluate the reasonableness of the significant assumptions; evaluate how management has addressed estimation uncertainty; and reperform calculations made by management.
Affordable water reforms	
<p>The Affordable water reforms programme (the Reform) is expected to result in significant structural changes to the management, funding and ownership of water supply, wastewater, and stormwater assets in the local government sector.</p> <p>The Government has recently announced a number of changes to the reform. On 13 April 2023, the Government outlined changes to the number of water services entities and a staggering of their establishment dates starting from early 2025, with all the water services entities to be established by 1 July 2026. The timing of the transfer of assets and liabilities is therefore uncertain until amendments to existing legislation are passed.</p>	<p>We will review the Council's disclosures to ensure they accurately reflect the significance and uncertainty of the Reforms on Council.</p> <p>Because the impact could be significant, but is uncertain, we are likely to include information in our audit report to draw a reader's attention to Council's disclosure about the Reform.</p>

Audit risk/issue	Our audit response
<p>The Bill to enable the transfer of three waters related assets and liabilities to the water services entities is currently with the select committee and will need to be passed to enable water assets to transfer to the related water entity.</p> <p>The timing of the legislation through Parliament will impact the 30 June 2023 annual report. If the legislation has not passed before 30 June an updated disclosure may still be appropriate. If the legislation is passed before 30 June, there will likely be some additional accounting and disclosure requirements.</p> <p>The Council should ensure that sufficient disclosure about impact of the reform (to the extent that the impact is known) is included in the annual report.</p>	
New accounting standard - First-time adoption of PBE IPSAS 41 <i>Financial Instruments</i>	
<p>PBE IPSAS 41: <i>Financial Instruments</i> is effective for periods beginning on, or after 1 January 2022. Earlier application was permitted however the Council did not early adopt the standard.</p> <p>The standard introduces new and amended classification, measurement, impairment and hedging requirements and disclosure for financial assets and financial liabilities. This standard replaces both PBE IPSAS 29 and PBE IFRS 9.</p> <p>PBE IPSAS 41 is based on PBE IFRS 9, and has been amended to include additional PBE guidance relevant to the New Zealand context.</p> <p>As the Council is transitioning from PBE IPSAS 29, the transition may result in a number of significant changes.</p> <p>The main changes introduced by PBE IPSAS 41 are that the standard:</p> <ul style="list-style-type: none"> Introduces a new classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and objective for which the asset is held. This could result in some instruments moving from amortised cost accounting to fair value accounting, or vice versa. Applies a forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing. 	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> Reviewing the transition/first time adoption analysis prepared by the Council for reasonability. Reviewing that the updated accounting policies, presentation and disclosure in the financial statements is in accordance with the requirements of the standard. Reviewing the expected credit loss assessment for significant receivables and other financial assets.

Audit risk/issue	Our audit response
<ul style="list-style-type: none"> Introduces a hedge accounting model that broadens the hedging arrangements in scope of the guidance and removal of the 80-125% effectiveness “bright line” test. The model develops a strong link between an entity’s risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. Entities that adopt PBE IPSAS 41 have a choice of either adopting the new hedging model of PBE IPSAS 41 or continuing to apply the hedging model of PBE IPSAS 29. There are also new disclosure requirements as the standards setters believe additional information on risks such as credit risk are increasingly important to users of the financial statements. <p>The Council will need to prepare an analysis of the classification of its financial instruments in terms of the standards and determine the necessary accounting and disclosure adjustments required.</p> <p>The Council will need to update its accounting policies and disclosures in the financial statements to reflect the adoption of the new standard. The 21J Local authorities model financial statements reflect the early adoption of this standard and provide illustrative disclosures.</p>	
Adoption of PBE FRS 48 <i>Service Performance Reporting</i>	
<p>PBE FRS 48 <i>Service Performance Reporting</i> replaced that part of PBE IPSAS 1 <i>Presentation of Financial Statements</i> that deals with service performance reporting requirements and is effective for annual reporting periods beginning on or after 1 January 2022, that is, for the Council, it is for the year ending 30 June 2023.</p> <p>The objective of the standard is “to establish principles and requirements for an entity to present service performance information that is useful for accountability and decision-making purposes in a general-purpose financial report”. PBE FRS-48 requires an appropriate and meaningful mix of performance measures and/or descriptions, including, where appropriate, measures of both the goods and services provided and of what has been achieved in the Council’s areas of responsibility.</p>	<p>We will review Council’s compliance with the new standard. We are providing a PBE FRS 48 <i>Service Performance Reporting</i> checklist to the Council to perform a self-review.</p>

Audit risk/issue	Our audit response
<p>In addition, PBE FRS 48 imposes additional disclosure obligations on entities. For example, paragraph 44 requires an entity to “disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information reported in accordance with this Standard that are relevant to an understanding of the entity’s service performance information”. Further if the City Council changes what it reports as service performance information compared to the previous year, then PBE FRS 48 requires the City Council to explain the nature of the changes and their effect.</p>	
Drinking water quality performance measures	
<p>Providing safe drinking water is a core function of the council and reporting how Council has performed in respect of this function in the annual report is important performance information.</p> <p>The regulatory regime in place over the safety of drinking water has transitioned in the current year from the Drinking Water Quality Standards (DWS) to the new Drinking Water Quality Assurance Rules (DWQARs) which came into effect on 14 November 2022.</p> <p>Performance measures about compliance with the DWS are currently mandated by the Department of Internal Affairs who have issued mandatory performance measures that are required to be reported against in Council’s annual report.</p> <p>There are currently no similar performance measures with respect to the new DWQARs. Despite this it is important that the Council includes appropriate performance information about their compliance with the new DWQARs. This performance information will be subject to audit and therefore it is important that Council is able to support the performance results that they report.</p>	<p>We will work with Council to agree what performance information and measures would be appropriate and audit the results reported against the agreed measures.</p>

Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. In this regard, we will discuss the following questions with you:

- What role do the Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, are the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to? Has appropriate action been taken on any lessons learned?

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.parliament.nz/reports/fraud-reports.

Group audit



The group comprises:

- Hamilton City Council.
- Waikato Regional Airport Limited (Associate - 50%, significant component).
- Waikato Innovation Growth Limited (Group). (non – significant component).

Our auditor's report covers the group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the group. In designing our group audit approach, we considered the structure of the group and identified the entities which are included in the group financial statements. Each entity is referred to as a component.

We have assessed the individual financial significance of each entity, and the likelihood of the risk of material misstatement of the group financial statements due to each entity's specific nature or circumstances. Based on this, we have determined that the Hamilton City Council parent entity and Waikato Regional Airport Limited are both significant components of the group.

Each business activity/entity is referred to as a component. We have assessed the risks of material misstatement and have identified our approach for each component. The table below shows the work planned for each significant component.

Significant component	Work to be performed
Waikato Regional Airport Limited.	We have selected WRAL as a significant component. WRAL is only significant to certain transactions and balances. We have instructed the component auditor to perform audit procedures on the fair value gain/loss on investment properties and Property plant and equipment to obtain assurance that the share of this profit/loss recognised in the group's financial statements is not materially misstated.

For non-significant components, we will perform analytical procedures at the group level to identify unexpected movements.

We will report any significant internal control deficiencies to the Council and management of the group. This will include any deficiencies identified by the group engagement team or brought to our attention by the component auditor. We will communicate deficiencies related to:

- group-wide internal controls; or
- internal controls at each component.

We will also communicate any fraud identified by the group engagement team or brought to our attention by the component auditor.

Our audit process

Initial planning

Initial planning activities include verifying compliance with independence requirements and building the audit team.

Understand your business and environment

We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of the City Council, your business, and the environment you operate in.

Assess audit risk

We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.

Evaluate internal controls

We update our understanding of internal controls relevant to the audit. This includes reviewing the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is done during the initial audit visits. We evaluate internal controls relevant to the audit for the whole financial year, so we consider internal controls relevant to the audit at all visits.

Finalise the audit approach

We use the results of the internal control evaluation to determine how much we can rely on the information produced from your systems during our final audit.

Gather audit evidence

During the final audit we audit the balances, disclosures, and other information included in the 's financial statements and performance information.

Conclude and report

We will issue our audit report on the financial statements and performance information. We will also report to the Council covering any relevant matters that come to our attention.

New auditing standard

ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, is effective for the audit of your financial statements for the first time this year. The standard sets out how auditors identify and assess the risks of material misstatement in financial statements. The standard requires the auditor to understand the entity, its environment, and its internal controls and use that knowledge to identify and assess risks. There are changes to how this is done compared to the previous standard.

There will be additional work required on your audit compared to previous years. In your case, the impact will be in the following areas:

- A greater emphasis on identifying and understanding the IT applications and the other aspects of your IT environment that are subject to risks arising from the use of IT.
- Evaluating the design and implementation of the general IT controls that address the risks arising from the use of IT.
- Considering the new inherent risk factors and updating our risk assessment documentation where relevant to address these risk factors.
- Revisions to the matters we consider in evaluating your system of internal control.
- Strengthened documentation requirements relating to the exercise of professional scepticism. There is a greater emphasis on demonstrating a questioning mind and a critical assessment of audit evidence gathered when performing our risk assessment procedures.

Enhancing year-end processes

The year-end financial statement close process and the preparation of the annual report requires a large number of resources to be committed to complete it effectively. This diverts the attention of your staff away from the current financial year and focuses them on past events. We want the audit process to run smoothly and we will work with management to achieve this through bringing forward the timing of audit procedures. We will work with management to assess what work can be brought forward.

Bringing forward audit procedures

Substantive audit procedures are traditionally performed after the year-end. Where possible, we will aim to bring audit procedures earlier in the year. This will be focused on, for example, year-to-date transactions for revenue and expenditure. Completion of these tests earlier in the year should allow for more timely identification and resolution of errors.

This testing will be completed during the interim audit. If we can complete this work earlier in the year, we expect this to reduce the final audit onsite work, as these hours will have been performed earlier in the year. This requires us to have the right information available during this visit to enable us to complete this work.

We will work with management to facilitate getting the information required at the right time. We will communicate with management if information is not available as agreed, including any impact on the year-end audit.

Materiality

In performing our audit, we apply materiality. In the public sector, materiality refers to information that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and service performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

It is a matter of judgement whether information is material. We consider the nature (qualitative) and amount (quantitative) of each item judged in the surrounding circumstances and its impact. In the public sector qualitative considerations are of equal significance as quantitative considerations. Qualitative considerations are of primary importance in our assessment of materiality in the context of disclosures for transparency and accountability reasons, and in evaluating any non-compliance with laws and regulations.

The Council and management need to consider materiality in preparing the financial statements and service performance information and make their own assessment of materiality from a preparer's perspective. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities. Management and the Council should not rely on our materiality assessment as a basis for owning and making judgements about the integrity of the financial statements and service performance information.

Financial statements materiality

For planning purposes we have set overall materiality for the financial statements based on last year's total property, plant and equipment. We are only applying this overall group materiality to the fair value of property, plant and equipment.

We have set a lower, specific materiality for all items not related to the fair value of property, plant and equipment.

Description	Parent \$'000	Group \$'000
Overall materiality	380,400	411,250
Specific materiality	8,880	9,600
Clearly trivial threshold	440	480

Materiality is subject to change once the actual results for the current year are available.

We design our audit procedures to detect misstatements at a lower level than overall materiality. This takes account of the risk of cumulative misstatements and provides a safety net against the risk of undetected misstatements.

We will report all uncorrected misstatements to the Council other than those that are below our clearly trivial threshold unless there are qualitative considerations that heighten its significance. We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from management and the Council on the reasons why the corrections will not be made.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and service performance information. The effects of any detected and uncorrected misstatements, individually and in aggregate, are assessed against overall materiality and qualitative considerations.

Overall financial statement materiality does not apply to any matters of effectiveness and efficiency, waste, or a lack of probity or financial prudence.

Materiality for service performance information

At an overall level, we assess whether the service performance information is suitable, given your purpose and the nature of your activities, and whether the reporting allows for an informed assessment of the Council's performance. In doing this we consider whether the information is relevant, complete, reliable, neutral, and understandable.

We set materiality for service performance information at an individual measure level based on what we expect would influence readers' overall understanding, decision making, or assessment of Hamilton City Council's performance. We consider a variety of factors including the level of public interest and potential public risk. Because of the variety of measurement bases applied, we normally express this materiality as a percentage of the reported result.

We have identified the following measures as material and assessed materiality for planning purposes. We will reassess this during the audit.

Material measure	Materiality
Growth	
Average processing days for building consents.	8% of actual reported result.
Average processing days for non-notified land use and subdivision resource consents.	8% of actual reported result.
Water supply	
The extent to which the Council's water supply complies with Part 4 of the drinking water standards for bacteria compliance criteria. The extent to which the Council's water supply complies with Part 5 of the drinking water standards for protozoa compliance criteria.	No materiality set as the water supply either complies or doesn't comply.

Material measure	Materiality
The percentage of real water loss from the water network infrastructure in the city.	8% of actual reported result.
The median resolution time of urgent callouts from the time that Council receives notification of the fault or unplanned interruption to the time that service personnel confirm resolution of the fault or interruption.	8% of actual reported result.
<p>The total number of complaints received by the local authority about any of the following:</p> <ul style="list-style-type: none"> a drinking water clarity; b drinking water taste; c drinking water odour; d drinking water pressure or flow; e continuity of supply; and f the local authority's response to any of these issues, <p>expressed per 1000 connections to the local authority's networked reticulation system.</p>	8% of reported result.
Wastewater	
The number of abatement notices received in relation to resource consents for discharge from the wastewater system.	No materiality set as the target is for no more than one abatement notice to be received.
The number of infringement notices, enforcement orders and convictions received in relation to resource consents for discharge from the wastewater system.	No materiality set as the target is for zero infringement notices, zero enforcement actions and zero conviction actions.
The median resolution time for callouts from the time that the Council receives notification of the blockage or other fault to the time that service personnel confirm resolution of the fault or interruption.	8% of actual reported result.
<p>The total number of complaints received by the territorial authority about any of the following:</p> <ul style="list-style-type: none"> a sewage odour; b sewerage system faults; c sewerage system blockages; and d the territorial authority's response to issues with its sewerage system, <p>expressed per 1000 connections to the territorial authority's sewerage system.</p>	5% of reported result.

Material measure	Materiality
Stormwater	
The number of complaints received by the TA about the performance of its stormwater system, expressed per 1000 properties connected to the TA's stormwater system.	8% of actual reported result
The number of abatement notices related to the management of the stormwater system.	No materiality set as the target is for no more than one abatement notice to be received.
The number of infringement notices, enforcement orders and convictions related to the management of the stormwater system.	No materiality set as the target is for zero infringement notices, zero enforcement actions and zero conviction actions.
Transport	
The change from the previous financial year in the number of fatal and serious injury crashes on the local road network.	5% of actual reported result.
The average quality of ride on Hamilton's sealed local road network, measured by smooth travel exposure.	8% of actual reported result.

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

How we consider compliance with laws and regulations

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

Wider public sector considerations

A public sector audit also examines whether:

- Hamilton City Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by Hamilton City Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by Hamilton City Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by Hamilton City Council or by one or more of its members, office holders, or employees.

Reporting protocols

Communication with management and the Council



We will meet with management and the Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

We understand that Tracey Musty (Finance Director) is our key contact for the audit. We will regularly update Tracey on progress throughout the audit, and any issues or delays encountered. We expect this information will be shared with management and the Council as appropriate. Any areas of material concern will be raised with David Bryant (GM people and organisational performance) in the first instance.

We intend meeting on a weekly basis with key finance team members to discuss matters relevant to the audit.

Reports to the Council



We will provide a draft of all reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the Council.

We will also follow up on your progress in responding to our previous recommendations.

Audit logistics

Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Our senior audit team members are:

Clarence Susan	Appointed Auditor
Chris Genet	Engagement Quality Review Director – Planning stage
Karen MacKenzie	Engagement Quality Review Director
Naude Kotze	Audit Manager
Brandan Botha	Assistant Manager
Ferdinand Dasigao	Manager Information Systems Audit and Assurance

The Engagement Quality Review (EQR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. They are independent from the day-to-day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQR will work with your Appointed Auditor and the audit team but will not have direct contact with you.

Timetable



Our proposed timetable is:

First Interim audit began	6 June 2023
Second interim audit	10 July 2023
Draft interim report to the Council issued	31 July 2023
Final audit begins	11 September 2023
Annual report available, including Mayor and Chief Executive's overview or reports	2 October 2023
Final financial statements available, incorporating all the amendments agreed to between us	9 October 2023
Verbal audit clearance given	23 October 2023
Audit opinion issued	31 October 2023
Draft report to the Council issued	31 October 2023
Summary Annual Report audit opinion issued	30 November 2023

AuditDashboard

In 2021 and 2022, we used AuditDashboard, our online portal, to transfer files between your employees and Audit New Zealand. Overall, the use of AuditDashboard made it easy to fulfil requests. Real-time status updates provided greater visibility to everyone and helped to keep everyone organised and on the same page.

We will again use AuditDashboard for transferring audits as part of the audit.

Working remotely

Covid-19 restrictions, such as lockdowns, and resultant changes to our own and our client's work locations, including increasing numbers working from home since the start of the pandemic have meant we changed how we worked with our clients over the last two years.

Lockdowns meant that our clients and our auditors did not always have access to their premises and information and had to work remotely. For clients able to work remotely, with access to systems and electronic documentation, as well as being prepared for the audit, audits continued to progress and progress well.

Performing our audit work during higher alert level restrictions confirmed that aspects of our audit work can be done efficiently off-site. We plan to continue to perform aspects of your audit remotely as there are some benefits to you and us of having our team off-site for parts of the audit. For you these benefits include:

- Staging and sending the information we request for audit over an agreed period of time as opposed to having all the information requested ready for our arrival at one agreed date.
- Less time spent on travel, so we will have more time focus on auditing what matters and raising issues earlier.
- Reduction in disbursements as we will incur less travel and overnight costs.
- Less auditor time on site which allows you to get on with your work and enables planned focused conversations when these take place.

To enable audit work to be completed off-site and fully obtain the benefits detailed above, you will need to ensure that you can provide supporting documents electronically.

During the previous audit, we were able to perform some of our audit work remotely. Based on our experience we found that Hamilton City Council has some systems and processes in place, but these will only facilitate a portion of the any off-site work.

We recognise different organisations are positioned differently to enable off-site audit work. We will be discussing and agreeing off-site working expectations in conjunction with our information requests with you as part of your 2023 audit. This will include our continued use of AuditDashboard to manage our information requests.

Expectations



For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit.

Health and safety



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 management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management 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.



Appendix 3 - HCC - DRAFT Audit Proposal Letter (2023-2025)



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Level 4, 127 Alexandra Street
PO Box 256, Hamilton 3240
Ph 04 496 3099

19 June 2023

Ref: EN/LCA/4-0004 - H600

Paula Southgate
Mayor
Hamilton City Council
Private Bag 3010
Waikato Mail Centre
Hamilton 3240

Copy: Manager, Auditor Appointments
Office of the Auditor-General
PO Box 3328
Wellington 6140

Tēnā koe Paula

Proposal to conduct the audit of Hamilton City Council on behalf of the Auditor-General for the 2023, 2024, and 2025 financial years

1 Introduction

As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit of your organisation for the three financial years ending 30 June 2023, 2024, and 2025.

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 2023, 2024, and 2025 and reasons for any changes;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG Audit Standards and Quality Support charge provides;
- certification required by the Auditor-General; and

The Office of the Auditor-General will be monitoring the outcome of the negotiations to ensure that fees are reasonable.

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Councils can take actions to ensure the efficiency of their audit. This includes being well prepared for audit, ensuring complex judgement issues are addressed early, regularly communicating with your auditor about any changes that might impact your reporting or the audit, having tidy systems and controls, and ensuring that relevant people are available to assist the auditors as they carry out their audit work. I welcome further discussion with you on opportunities for reducing the time and costs of your audit.

3 Entities covered by this proposal

This proposal covers the audit of Hamilton City Council.

4 Key members of the audit team

Appointed Auditor	Clarence Susan
Engagement Quality Reviewer	Karen McKenzie
Information Systems Director	Dieter Röhm

5 Estimated audit hours

We estimate that the following hours will be required to carry out a quality public sector audit efficiently (compared to budgeted and actual data from the previous financial year):

Audit team member	2022 budget	2022 actual*	2023	2024	2025
Appointed Auditor	120	175	160	160	160
Engagement quality reviewer	20	35	35	35	35
Audit Manager	170	275	220	220	220
Other CA qualified staff	557	812	626	626	626
Non-CA qualified staff	440	500	540	540	540
Other specialists: Sector specialist support	13	13	13	13	13
Information Systems	65	66	78	78	78
Specialist assurance Services	16				
Tax	4	1	3	3	3
Total audit hours	1,405	1,877	1,675	1,675	1,675

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 <i>budgeted</i> hours:	2023	2024	2025
Changes to financial reporting standards which result in additional audit work:			
<ul style="list-style-type: none"> PBE IFRS 48 - PBE FRS 48 <i>Service Performance Reporting</i> replaced that part of PBE IPSAS 1 <i>Presentation of Financial Statements</i> that deals with service performance reporting requirements and is effective for annual reporting periods beginning on or after 1 January 2022, that is, for the Council, it is for the year ending 30 June 2023. This will result in additional audit work as we will need to review compliance with this standard. 	20	0	0
<ul style="list-style-type: none"> PBE IPSAS 41 – PBE IPSAS 41: <i>Financial Instruments</i> is effective for periods beginning on, or after 1 January 2022. Because Council has early adopted this standard, there are a handful of differences that we will need to consider this year resulting in additional audit work. 	16	0	0
<ul style="list-style-type: none"> ISA (NZ) 315 – ISA (NZ) 315 (Revised 2019), <i>Identifying and Assessing the Risks of Material Misstatement</i>, is effective for the audit of your financial statements for the first time this year. There will be additional work required on your audit compared to previous years. 	66	0	0
Changes within the entity, or in its environment :			
<ul style="list-style-type: none"> Areas of or additional work on high-risk accounting estimates – the additional work around revaluation and fair value assessments has increased our work to get assurance. This is across infrastructure and other PP&E that is revalued. 	48	0	0
<ul style="list-style-type: none"> The impacts of growth – over the past few years Council is experiencing significant growth in the District. This has resulted in additional audit work performed being performed on non-financial measures (and in particular greenhouse gas measures), revenue, expenditure and capital expenditure. 	27	0	0
The increase in hours also reflects an adjustment to the base hours which was clearly not sustainable to complete a quality audit (required significant investment and write-off in hours previously). We need to re-set audit hours to ensure they are sufficient to complete a quality audit.	93	0	0
Total increase in audit hours	270	0	0

6 Proposed audit fees

5.2

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

Structure of audit fees	2022 budget fees	2022 actual fees charged (*)	2023	2024	2025
	\$	\$	\$	\$	\$
Net audit fee (excluding OAG Audit Standards and Quality Support charge and disbursements)	255,622	507,742	379,148	409,452	442,087
OAG Audit Standards and Quality Support charge	20,438	20,438	31,857	33,290	34,788
Total audit fee (excluding disbursements)	276,060	528,180	411,005	442,742	476,875
Costs absorbed by Audit New Zealand	0	(252,120)	0	0	0
Estimated disbursements	6,000	2,081	6,000	6,500	7,000
Total billable audit fees and charges	282,060	278,141	417,005	449,242	483,875
GST	42,309	41,721	62,551	67,386	72,581
Total (including GST)	324,369	319,862	479,556	516,628	556,456

* Note – 2022 actual audit fees charged were \$528,180, compared to our 2023 audit costs of \$411,005. We have shown in table 5 and the paragraph below it where the additional audit effort was required, and any expected effect on the audit hours required in future years.

Total audit costs for the past two were \$528,180 in 2022 and \$332,154 in 2021. In 2021 our agreed fee was \$235,622 and actual hours spend was 1838. Over time we expect that the audit fee charged will more fairly reflect our actual costs of performing the audit.

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG Audit Standards and Quality Support charge.

We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary).

We may also need to engage external experts to assist with certain specialist areas of valuation or estimation (such as greenhouse gas emissions and valuation of Property Plant and equipment). These costs will be included as a disbursement. While these are the usual audit areas where we would use experts there may be other complex estimates where additional expertise may be necessary. If this is the case, we will discuss this with management.

6.1

Reasons for increased or decreased audit fees compared to previous period budgeted fees.	2023	2024	2025
<ul style="list-style-type: none"> The impacts of growth – over the past few years Council is experiencing significant growth in the District. This has resulted in additional audit work performed being performed on non-financial measures (and in particular greenhouse gas measures), revenue, expenditure and capital expenditure. 	6,000	0	0
The increase in hours also reflects an adjustment to the base hours which was clearly not sustainable to complete a quality audit (required significant investment and write-off in hours previously). We need to re-set audit hours to ensure they are sufficient to complete a quality audit.	15,445	0	0
Predicted charge out rate movements. (Based on 2022 APL hours for 2023).	60,000	31,675	34,069
Total increase (decrease) in audit fees	133,573	31,675	34,069

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;
- 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;
- 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);

A.1.4 - H0009a

A.1.4 - H0009aC2311 - 30-06-2023.docx

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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.

8

Nāku noa, nā

Clarence Susan
Appointed Auditor

I accept the audit fees for the audit of the three financial years as stated above.

Full name:	Paula Southgate	Position:	Mayor
Authorised signature:		Date:	
Entity name:	Hamilton City Council		

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: Clarence Susan
Audit New Zealand
PO Box 256
Waikato Mail Centre
Hamilton 3240

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