

Report to the Council on the audit of

Invercargill City Council and
group

For the year ended 30 June 2022

Contents

Key messages	3
1 Recommendations	4
2 Our audit report	7
3 Matters raised in the audit plan	10
4 Assessment of internal control	15
5 Matters identified during the audit	20
6 Public sector audit.....	21
7 Group audit	24
8 Useful publications.....	26
Appendix 1: Status of previous recommendations	31
Appendix 2: Corrected misstatements.....	37
Appendix 3: Disclosures	47

Key messages

We have completed the audit for the year ended 30 June 2022. This report sets out our findings from the audit and draws attention to areas where Invercargill City Council (the City Council) and group is doing well and where we have made recommendations for improvement.

Audit opinion

We have issued a qualified “except for” audit opinion on 7 March 2023. Our qualification relates to the comparatives whereby the City Council and group did not adequately demonstrate that the comparative carrying value of property, plant and equipment did not differ materially from its fair value.

Without modifying our audit opinion further, we have included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements relating to the government’s announcement regarding three waters reform. This is discussed further in section 2.1.2.

Significant matters raised in our audit plan and issues identified during the audit

Our audit plan outlined the areas of focus identified for the audit. We discuss these matters and the outcome of our procedures in section 3 of this report. In addition, we identified other matters during our audit, which are outlined in sections 4, 5 and 6 of this report.

This was a particularly challenging audit, for various reasons, including those as outlined in our report to Council dated 13 December 2022. Underpinning this is a significant control deficiency whereby Council has a responsibility for designing, implementing, and maintaining internal controls to prevent and detect fraud or error, and which enables the preparation of the financial statements and the statement of service performance that are free from material misstatement whether due to fraud or error. This does not seem to be the case as evidenced by the multiple sets of accounts received during the audit and numerous misstatements identified by the auditors included in Appendix 2, which for some individually and others in aggregate, are considered material.

Thank you

We would like to thank the Council, management and staff for their assistance received during the audit.



Dereck Ollsson
Appointed Auditor
11 May 2023

1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Explanation	Priority
Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the City Council to significant risk or for any other reason need to be addressed without delay.	Urgent
Address at the earliest reasonable opportunity, <i>generally within six months</i> These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.	Necessary
Address, <i>generally within six to 12 months</i> These recommendations relate to areas where the City Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.	Beneficial

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p>Annual report preparation process including the consolidation of accounts to improve</p> <ul style="list-style-type: none"> • Review the consolidation model to ensure that any flaws in the model are rectified before the preparation of the FY23 financial statements. • Consider establishing an automated process for the consolidation model, which can limit the number of errors and manual updates. • Ensure sufficient quality checks/reviews are performed over the consolidation model while preparing the FY23 financial statements. • Ensure the accounting treatment of investment in joint ventures are accurate after considering the effect of the group eliminations. Any investments in joint ventures and associates going into negative should be capped at nil. • Complete a detailed workpaper to ensure that the group balance of property, plant and equipment are fairly stated at fair value and comply with the group accounting policy. • Key members of management as outlined in your business process to perform a quality internal review of the draft annual report and evidence such review before it is provided to the auditors for the annual audit. • Update your business process to include an appropriate quality review process for those charged with governance, including Council. 	4.1	Urgent
<p>A new version of RAMM should be used in the next roading valuation</p> <p>To implement a new version of RAMM in the next roading valuation.</p>	4.2	Necessary
<p>Council to carry out a review of accuracy and completeness of RAMM data</p> <p>To perform a review of RAMM database to ensure completeness and accuracy.</p> <p>To include all the existing roading assets in the next valuation.</p>	4.3	Necessary

Recommendation	Reference	Priority
<p>Asset condition in IPS database</p> <p>To include information of condition of an asset and the date when the assessment was conducted in Infor IPS.</p>	4.4	Necessary
<p>Information supplied to the investment property valuer</p> <p>To provide the valuer with the most up to date investment property and fixed asset register together and supplement this with a lease schedule for those assets.</p>	4.5	Necessary
<p>Formal timely review of fixed asset register reconciliations</p> <p>To document and evidence, the review of the reconciliation between the fixed asset register and the general ledger in a timely manner throughout the financial period.</p>	4.6	Necessary
<p>Prudent expenditure decisions</p> <p>To ensure that expenses incurred by the CE are approved on a one-up basis.</p> <p>To ensure that the expenses/service fees to the Chair of the Audit and Risk Committee are approved by the CE as stated by the Sensitive Expenditure Policy.</p>	6.4 and Appendix 1	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open recommendations	1	10	4	15
Implemented or closed recommendations	1	4	-	5
Total	2	14	4	20

2 Our audit report

2.1 We issued a qualified audit report



We have issued a qualified “except for” audit opinion on 7 March 2023. Our qualification relates to the comparatives whereby the City Council and group did not adequately demonstrate that the comparative carrying value of property, plant and equipment did not differ materially from its fair value.

In our opinion, except for the possible effects of this matter, the financial statements and statement of service performance present fairly the City Council’s activity for the year and its financial position at the end of the year.

Without modifying our audit opinion further, we have included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements relating to the government’s announcement regarding three waters reform.

2.1.1 Qualification of the comparative year carrying value of the City Council and the group’s revalued property, plant and equipment and the asset revaluation movement in the current year

In the previous financial year, the City Council completed a fair value assessment for classes of property, plant and equipment which apply the revaluation model. The work we performed over these assessments provided evidence supporting the presence of a material fair value movement. We concluded that sufficient appropriate evidence had not been provided to support the conclusion reached by the City Council that the carrying value of property, plant and equipment did not materially differ from its fair value. Accordingly, we issued a qualified opinion on the comparative figure of these balances, as well as the movement of the revaluation through the statement of comprehensive revenue and expense for the current year.

2.1.2 Three Waters Reform

In June 2022, the Government introduced legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities, with effect from 1 July 2024. The legislation received royal assent from the Governor-General on 14 December 2022. The impact of these reforms will mean that the City Council will no longer deliver three waters services or own the assets required to deliver these services. In December 2022, the Government introduced the Water Services Legislation Bill, which will transfer assets and liabilities to the water service entities.

Given the significance of the impacts from the reforms, the City Council disclosed the matter as a subsequent event in the notes to the financial statements. We reviewed the disclosure and concluded it was appropriate.

2.2 Uncorrected misstatements

The misstatements that have not been corrected below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Grant revenue	1				166,000
Revenue received in advance			(166,000)		
Property, plant and equipment	2	17,316,000			
Revaluation gains through other comprehensive income					(17,316,000)
Total parent		17,316,000	(166,000)		(17,150,000)
Total group		17,316,000	(166,000)		(17,150,000)

Explanation of uncorrected misstatements

- 1 Overstatement of three waters stimulus grant revenue which exceeds progress of work performed. The corresponding impact is an understatement of revenue in advance.

Management comment for not correcting

This error was raised late in the audit and given the relatively small size of the amount (immaterial) and this was an issue of which financial year the revenue was recognised, it was considered by management appropriate to not make the adjustment.

- 2 Most likely and highest possible understatement of property, plant and equipment and revaluation gain through other comprehensive income, due to accounting policies of the subsidiary and associate entities not aligning.

Management comment for not correcting

This is an estimate of what Audit NZ consider would be the uplift if all subsidiaries and associates followed the same accounting policies as Council. The difference in accounting policies has been noted.

2.3 Corrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The corrected misstatements are included within Appendix 2.

2.4 Quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the City Council and group. This includes the draft annual report with supporting working papers.

We provided a listing of information we required to management on 6 May 2022 for interim and 20 May 2022 for final. This included the dates we required the information to be provided to us.

We would like to acknowledge the assistance we received from management throughout the audit as we dealt with the technical issues that arose during the audit. Management was willing to assist and ensured that our requests were met.

We worked with management with an aim to complete the audit and support the adoption of the annual report prior to Christmas. However, this was not achieved due to resource constraints. Several matters required a considerable amount of time to complete and were included in the report issued to Council on 13 December 2022.

We acknowledge management's assistance; however, we sought approval from the Office of the Audit-General to negotiate an additional fee recovery.

3 Matters raised in the audit plan



In our audit plan of 4 May 2022, we identified the following matters as the main audit risks and issues:

3.1 Revaluation of property, plant and equipment

PBE IPSAS 17, *Property, Plant and Equipment*, requires that valuations are carried out with sufficient regularity to ensure that the carrying value is not materially different from their fair value as at reporting date. The City Council and group have been revalued, land and buildings, roading and three waters in the year under review.

The revaluation resulted in an uplift of \$215.12 million for land and building, library books, roading and three waters assets. There was also an addition to property, plant and equipment of \$21.04 million offset by depreciation for the year of \$28.82 million.

The overall valuation increase is generally attributed to a spike in house and land prices over the past two years and New Zealand construction cost inflation as a result of macroeconomic challenges including ongoing supply chain issues and global market disruptions.

The audit team reviewed the revaluation reports and peer review reports. We are satisfied with the underlying data and the reasonableness of assumptions underlying the valuation methodology. We gained reasonable assurance that the valuations comply with the applicable accounting standards.

The audit team also obtained formal representations from the internal and external valuers' regarding the suitability of the valuations for financial reporting purposes and their compliance with applicable accounting and valuation standards.

The remaining asset classes are carried at cost and have been assessed for impairment. Our review of revaluation of property, plant and equipment did not identify any issues or significant matters to report.

3.2 Investment property

The City Council's asset base consists of a substantial number of investment properties. Investment properties are independently valued and recognised at its fair value in the City Council's financial statements each balance date.

Investment property is an audit risk due to the significance of the carrying value and fair value changes, and because of the judgements involved in determining fair value.

As part of our audit, we:

- gained an understanding of the current status of the City Council's investment property portfolio;
- reviewed the accounting treatment for each asset type to ensure it is compliant with generally accepted accounting principles;
- obtained and reviewed the independent valuation reports prepared by the valuer to understand the methodology and assumptions used, in determining the value recognised in the financial statements; and
- ensured that the disclosure included in the financial statements is appropriate.

We have raised some **recommendations** in relation to investment property in section 4.5.

3.3 Software as a Service (SaaS)

Recent IFRIC agenda decisions by the IASB have provided some clarity on the accounting for certain costs in implementing cloud computing arrangements (SaaS). The agenda decisions must be applied by for-profit entities. For public benefit entities (PBEs), the agenda decisions can be referred to in determining the accounting treatment because the underlying intangible asset standards are consistent between IFRS and PBE IPSAS.

We reviewed the City Council's assessment on the accounting treatment on cloud computing arrangements. Our review of SaaS did not identify any issues or significant matters to report.

3.4 Group issues

3.4.1 Correction of a Material prior period error

The loan from Invercargill City Property Limited (ICPL) to its associate HWCP Management Limited (HWCP) was identified as being accounted for incorrectly.

The loan had previously been recognised at amortised cost and impaired to nil. The loan was subsequently recognised by ICPL at its fair value of \$2.29 million (2021: \$3.34 million) and corrected as a material prior period error in the ICPL financial statements. As the error was also material for the City Council Group it was also corrected as a material prior period error in the Invercargill City Holdings Limited Group (ICHL) and then the City Councils group's financial statements.

We reviewed the valuation of the loan and related financial instrument and prior period error disclosures. We concluded these were appropriate for inclusion in the financial statements and compliant with relevant accounting standards.

3.4.2 Invercargill Central Limited (ICL) share valuation

3.4.2 (i) Unwind of an impairment of ICL share valuation in ICHL

ICL is an inner-city redevelopment project for a shopping centre in the Invercargill city centre. ICL is owned by O'Donnell CBD Limited and Geoff Thomson (Class A Shareholders), ICHL (Class B Shareholder) and Crown Regional Holdings Limited (CRHL) (Class C Shareholder). ICHL have engaged Deloitte to provide an indicative valuation of ICL's Class B shares.

ICHL engaged Deloitte who have prepared a valuation to value ICL's Class B shares for ICHL using the dividend discount model approach (An income approach, whereby the price of a company's stock is equal to the present value of the sum of the future dividend payments, discounted at the investor's required rate of return).

Deloitte used sensitivity analysis based on the cost of capital to calculate a valuation range of \$0.4 million to \$0.6 million with a mid-point of \$0.5 million.

This report indicates an impairment of the joint venture (ICL) held by ICHL in a form of Class B shares. Audit New Zealand engaged PricewaterhouseCooper (PwC) as an auditor's expert to review Deloitte's indicative valuation of ICL's Class B shares. PwC reviewed the methodology and assumptions used as well as assumption embedded in the cash flow forecasts.

Based on their review of Deloitte's report, PwC stated that the most reasonable assessment of the value of Class B shares is nil.

This indicates that the investment in ICL is non-cash generating. There are impairment indicators under PBE IPSAS 29, consequently PBE IPSAS 36.45 requires PBE IPSAS 21 to be applied. In PBE IPSAS 21, *Impairment of Non-Cash-Generating Assets*, the relevant impairment indicators are factors, such as an economic downturn, interest rate increases and other market factors during the reporting period that could be an impairment indicator. For an example, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

The City Council have prepared analysis to determine the recoverable amount of an investment in ICL, by determining the depreciated replacement value of "The Block" development and the Readings Cinema site as at 30 June, based on a combination of:

- Rating information.
- Insurance renewal information.
- Purchase price (Readings Cinema).
- Quantity surveyors reports.

The City Council concluded that the value in use was higher than the borrowing and equity of ICL. Therefore, the investment in the associate, ICL is not impaired as at 30 June 2022.

We reviewed the City Council's assessment and inputs used in the calculation of depreciated replacement value of "The Block" development and the Readings Cinema site and was satisfied that they were reasonable and appropriate.

For the City Council and group, there is no need to recognise an impairment as the value in use exceeds the carrying value. The impairment adjustment made in ICHL is reversed in the City Council's group accounts.

3.4.2 (ii) A potential impairment of ICL advance from the City Council

We reviewed the loan agreement between the City Council and ICL.

For impairment consideration, we calculated the expected credit loss (ECL) based on an 18-month term loan. We used the S&P Global Corporate default rate (1981-2021) for BB to BBB entity with a range of 0.36% to 1.45% (note: rating of BB to BBB entity was used by Deloitte when determining the credit risk exposed by ICL in calculating the cost of equity). We estimated the expected credit loss provision to be \$185,000 based on a loan carrying value of \$12.8 million and a default rate of 1.45%.

We concluded and agreed with Council's view that the ICL advance is not impaired as at 30 June 2022.

3.5 The risk of management override of internal controls

There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.

To address this risk, during the audit we:

- tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- reviewed audit estimates for bias (including valuations and impairment) and evaluated if there was any risk of material misstatement due to fraud from bias; and
- evaluated the business rationale of any significant transactions that were outside the normal course of business, or that otherwise appeared to be unusual given our understanding of the Group.

From the work we performed, there are no issues to bring to your attention.

3.6 Prudent expenditure decisions

We enquired with management and completed testing across a sample of sensitive transactions. We identified some instances where transactions are not reviewed or approved on a one-up basis.

We have raised some **recommendations** in section 6.4.

3.7 Setting of rates

Compliance with the Local Government (Rating) Act 2002 (LGRA) is critical to ensure that rates are validly set and not at risk of legal challenge.

We verified that all mandatory measures are included and reported on in the annual report. Our review of compliance with LGRA did not identify any matter to report.

3.8 Integrity and ethics

From the work performed we have not identified any issues of concern.

4 Assessment of internal control



The City Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparation of the financial statements. We review internal controls relevant to the audit, to design audit procedures that are appropriate in the circumstances. Our findings relate to our normal audit work, and may not include all weaknesses in internal control.

Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the City Council and management to establish and maintain effective management procedures and internal controls.

No matters have come to our attention that we consider would affect the culture of honesty and ethical behaviour of the City Council. The elements of the control environment provide an appropriate foundation for other components of internal control.

Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the City Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

We have identified areas detailed below where we believe processes can be improved. We have also set out the status of internal control matters from previous years' reports to the Council in Appendix 1. This includes control findings we must report to you under audit standards where management may have previously accepted the risk of the finding. We observe progress has been made in implementation of previous recommendations during the current financial year.

The internal control findings from the interim audit were reported in the interim management report issued to Council on 16 August 2022. Recommendations included in the interim management report are also included below in Appendix 1: Status of previous recommendations.

4.1 Annual report preparation process including consolidation of accounts to improve

We completed the consolidation work without further variances or queries after receiving and reviewing version 5 of the consolidation workings in late February. We reviewed the first draft of the consolidation workings and raised queries/questions which remained unresolved/unanswered in the consolidation workings version 1 to 4.

Furthermore, deficiencies were identified in the extracted business process, which states: "At the end of the financial year, once the annual report is prepared, the CFO and Group Manager Finance and Assurance reviews it. The Council does receive the draft annual report prior to the audit for information purposes as do ELT who also receive for review purposes. The annual report is presented to Council prior to adoption."

Recommendation

- Review the consolidation model to ensure that any flaws in the model are rectified before the preparation of the FY23 financial statements.
- Consider establishing an automated process for the consolidation model, which can limit the number of errors and manual updates.
- Ensure sufficient quality checks/reviews are performed over the consolidation model while preparing the FY23 financial statements.
- Ensure the accounting treatment of investment in joint ventures are accurate after considering the effect of the group eliminations. Any investments in joint ventures and associates going into negative should be capped at nil.
- Complete a detailed workpaper to ensure that the group balance of property, plant and equipment are fairly stated at fair value and comply with the group accounting policy.
- Key members of management as outlined in your business process to perform a quality internal review of the draft annual report and evidence such review before it is provided to the auditors for the annual audit.
- Update your business process to include an appropriate quality review process for those charged with governance, including Council.

Management comment

Management acknowledge that there were some challenges in the preparation of the consolidation due to a significant turnover in staff. Unlike 2021, the consolidation was audited significantly earlier in the audit which was very pleasing to see. However, management would have appreciated it had direct feedback been provided on the first review rather than receiving long lists of issues and questions. Once more direct feedback was received, management did take steps.

Steps are currently being taken to update the consolidation preparation process and internal processes updated, to achieve a better quality of deliverable.

4.2 A new version of RAMM should be used in the next roading valuation

The replacement cost (RC) and depreciated replacement cost (DRC) of assets recorded in RAMM should automatically calculate based on the embedded formula.

We manually recalculated the RC and DRC and we note there were variances.

The roading team advised that the current version of RAMM does not provide a lot of visibility of how the RC and DRC is calculated. The roading valuation peer review report, also raised a recommendation for Council to implement a new version of RAMM as to solve the reason above.

Recommendation

To implement a new version of RAMM in the next roading valuation.

Management comment

This will be considered prior to the next full roading revaluation.

4.3 Council to carry out a review of accuracy and completeness of RAMM data

The City Council engaged IAM Consulting Limited to carry out a peer review of roading valuation report which was performed in-housed.

In the peer review report, physical asset inspection was carried out as well as virtual google inspection. It was identified that some existing assets are not recorded in RAMM and some assets recorded in RAMM do not exist. It also identified that railings (for example, guardrails, sight rails) assets were not included in the valuation.

Recommendation

- To perform a review of RAMM database to ensure completeness and accuracy.
- To include all the existing roading assets in the next valuation.

Management comment

The recommendation has been noted.

4.4 To include information on the asset condition of an asset and date of the assessment in the Infor IPS database

The City Council engaged Beca to perform the three waters revaluation. For reticulation assets, Beca relied on the completeness and accuracy of the IPS database. Beca provided a recommendation for the City Council to include information on the condition of an asset and the date when the assessment was conducted in Infor IPS. This will help refine the data accuracy used in the valuation and allow the valuation to include a higher weighting on the condition for assets that have recently been inspected.

Recommendation

To include information on the condition of an asset and the date when the assessment was conducted in Infor IPS database.

Management comment

This is currently being considered.

4.5 Information supplied to the investment property valuer

During the year, the City Council identified some assets held in investment property that should have been included in property, plant and equipment balance. We agreed with these reclassifications and confirmed that they had been accounted for correctly in the financial statements.

The investment property valuer performed the valuation based on a lease schedule supplied to them by the City Council. The lease schedule contains assets in both Investment Property and Property Plant and Equipment.

This creates a risk of the City Council revaluating assets that no longer classified as investment property and incurs unnecessary additional costs to perform revaluation on those assets and time to reconcile what assets in the valuation relate to the investment property balance.

Recommendation

To provide the valuer with the most up to date investment property fixed asset register together and supplement this with a lease schedule information for those assets.

Management comment

This error was identified by staff and will be corrected.

4.6 Formal timely review of fixed asset register reconciliations

In relation to the review of fixed asset register reconciliations, we note there is no evidence of the review process carried out.

Recommendation

To document and evidence, the review of the reconciliation between the fixed asset register and general ledger in a timely manner throughout the financial period.

Management comment

The recommendation is noted.

5 Matters identified during the audit



We bring to your attention the following matters identified during the audit:

5.1 Claim settlement

In 2020, the previous Mayor of Invercargill City sued the City Council over its refusal to pay his legal costs in a defamation case brought against him by a fellow Councillor in 2015. Whilst the previous Mayor won the defamation case, the Councillor was declared bankrupt so could not pay the costs awarded to the previous Mayor.

The previous Mayor then sought recovery of his costs from the City Council and its insurer Risk Pool. Legal action resulted which had been ongoing for several years. Up until December 2022, the City Council had expensed \$296,625 in legal costs in relation to the case. In October 2022, the previous Mayor was not re-elected to the Council in any role. At this time, he ceased to be a related party of the City Council.

A settlement was reached in late January 2023 by the new Council. This settlement is with both the Council and insurer and does not attach fault or liability on any party.

We informed the Office of the Auditor-General of this matter and consulted with the technical team for advice for the disclosure in the annual report. The settlement is considered an adjusting event as such an accrual should be recognised at balance date for the settlement amount, and the contingency removed.

As at balance date, the previous Mayor was one of the key management personnel (KMP). As a member of KMP, the previous Mayor is a related party of ICC. The settlement is not remuneration for services and therefore does not need inclusion in the KMP remuneration disclosure. PBE IPSAS 20.27, *Related Party Disclosure*, requires disclosure of the types of transactions that have occurred; and the elements of the transactions necessary to clarify the significance of these transactions. Therefore, the settlement has been disclosed in the subsequent event note, detailing the event that had taken place, such as a resolution between Council and the Mayor has occurred and a payment has been made to the Mayor.

We are comfortable with the disclosure in the annual report.

6 Public sector audit



The City Council is accountable to their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the City Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the City Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the City Council carrying out its activities effectively and efficiently;
- waste being incurred as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the City Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

Based on the audit work completed, we note the following:

6.1 Legislative compliance

To discharge the Auditor-General's mandate, we carried out an audit of legislative compliance. We limited this review to obtain assurance that the group has complied with significant legislative requirements that may directly affect the financial statements or general accountability.

We note the 2021/22 annual report of Invercargill City Council and group was not completed by 31 December 2022, as required by section 98(7) of the Local Government Act 2002, due to resource constraints.

The breach was adequately disclosed within the annual report. We did not identify any further material breaches from our enquiries and work performed.

6.2 Efficiency, waste, and lack of probity or financial prudence

As part of the Office Of The Auditor-General's public sector mandate, we are required to be alert for and review matters of effectiveness and efficiency, waste, and a lack of probity or financial prudence.

These matters could include:

- situations where those in governance or management roles have conflicts of interest which are not appropriately managed;
- the payment of unusually high or unjustifiable fees to those in a governance role;
- excessive or unusual ex-gratia payments made to employees; and
- frequent override of policies for sensitive expenditure.

From our review and testing of sensitive expenditure items, we did not identify any performance, waste or probity issues to report.

We also reviewed and consulted with the legal team of the Office of the Auditor-General on the settlement paid to the previous Mayor, as detailed in section 5.1. The settlement did not give rise to any performance, waste or probity issues.

6.3 Related parties and conflicts of interest

Related party transactions represent a particular area of risk in most public sector audits. Conflicts of interest are also an area of concern because of probity and the potential for matters to gain a high profile. Poorly managed interests, or the non-disclosure of an interest present both reputational, probity and legal risks for all public entities.

We identified that the City Council is improving their practices in terms of identifying, managing and disclosing related party transactions. We have confirmed the completeness and accuracy of the related party transactions and balances disclosed in the annual report. We have no further matters to report in respect of related parties and conflicts of interest.

6.4 Prudent expenditure decisions

We enquired with management and completed testing across a sample of sensitive transactions.

We noted that the Chief Executive (CE's) credit card was reviewed and signed off by the Group Manager – Finance and Assurance. We would normally expect that expenses incurred by the CE are reviewed and approved by either the Mayor or Chair of Audit and Risk Committee (that is, one-up approval).

We also noted that invoices for services provided by the Chair of the Audit and Risk Committee were approved by the CE and Executive Officer Interim Team Leader Governance and Administration. We noted that the sensitive expenditure policy states that all expenditure for elected members should be approved by the CE. We note the Chair of the Audit and Risk Committee is not an elected member but rather an appointment. We recommend the sensitive expenditure policy be updated to include the Chair of the Audit and Risk, if independent, alongside of elected members.

Recommendations

- To ensure that expenses incurred by the CE are approved on a one-up basis.
- To ensure that the expenses/service fees to the Chair of the Audit and Risk Committee are approved by the CE, as promoted by best practice.

Management comment

It is noted that the expenses of the Chief Executive together with those of all elected members have been reported to the Risk and Assurance Committee so one up approval was effectively given by the whole committee.

7 Group audit



The group comprises the following subsidiaries, associates and joint ventures:

- Subsidiaries: Invercargill City Holdings Limited Group (ICHL) (100% owned), Invercargill City Charitable Trust (100% owned) and Invercargill Community Recreation and Sports Trust (100% owned).
- Associates: Southland Regional Development Agency (48.7% share), Emergency Management Southland (28.3% share) and Southland Regional Heritage Committee (63% share).
- Joint ventures and operations: WasteNet (55% share).

We note the following during our audit for the year ended 30 June 2022:

- No instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work.
- No limitations on the group audit.

7.1 Summary of significant group entity audits

Audit New Zealand has audited all significant components within the ICHL group except for Electricity Invercargill Limited (EIL), which is audited by PwC on behalf of the Auditor-General, and ICL which is audited by KPMG. We comment below on the significant matters arising from the audit of the subsidiaries that were considered as part of our group audit.

7.2 ICHL and its subsidiaries

7.2.1 EIL Group

PwC issued an unmodified audit opinion on 30 June 2022.

The EIL group net surplus after tax was \$5.73 million, down from \$6.14 million last year. The change in surplus was due to higher taxation expenses, offset by lower operating expenses and an increase in share of profit of profit of associates and joint ventures.

The significant matters relevant to the Group audit in relation to the EIL group audits the fair value assessment of property, plant and equipment.

We were also made aware of a fraud which occurred in the EIL group. We confirmed the component auditor PricewaterhouseCoopers has undertaken appropriate steps for reporting this to the Office of the Auditor-General, and that there was no material impact on the Group financial statements.

7.2.2 Invercargill Airport Limited (IAL)

We issued an unmodified opinion dated 1 November 2022.

IAL recorded a net profit of \$0.20 million decreasing from \$0.30 million last year before the change in fair value of investment property. This reflected the continued impact of Covid-19 on the company's operation. Passenger numbers slightly increased from 277,081 in 2022 compared to 230,069 in 2021.

There were no significant issues to the Group in the IAL audit to bring to your attention.

7.2.3 ICPL

We issued an unmodified opinion dated 20 December 2022.

ICPL reported a breakeven after-tax profit. The correction of a material prior period error in respect of ICPL's loan to HWCP Management Limited was the only matter of significance to the group. This is discussed in 3.4 above.

7.2.4 ICL

KMPG issued an unmodified audit opinion on 6 October 2022.

ICL continues to progress its developments in the Invercargill city centre with stage one of the development opening in July 2022. The final stages are due for completion before the end of the 2023 financial year.

ICL also reported a \$1.580 million deficit in the current year, reflecting the company's operating costs, as it is yet to generate lease revenue due to stage one opening after the end the current financial year.

The reversal of the impairment of the investment in ICL in ICHL's financial statements was the only matter of significance to the Group audit, this is discussed in 3.4 above.

8 Useful publications



Based on our knowledge of the City Council, we have included some publications that the Board and management may find useful.

Description	Where to find it
Performance reporting	
Public organisations are responsible for reporting their performance to Parliament and the public in a way that meaningfully reflects their organisation's aspirations and achievements. The Auditor-General published a discussion paper that explores five areas for improvement in performance reporting.	On the Office of the Auditor-General's website under publications. Link: The problems, progress, and potential of performance reporting
The Office of the Auditor-General, the Treasury and Audit New Zealand have jointly prepared good practice guidance on reporting about performance. The guidance provides good practice examples from public organisations in central government. Those working in other sectors may also find this useful.	On Audit New Zealand's website under good practice. Link: Good practice in reporting about performance — Office of the Auditor-General New Zealand (oag.parliament.nz)
Local government risk management practices	
The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management.	On the Office of the Auditor-General's website under publications. Link: Observations on local government risk management practices
Public accountability	
Public accountability is about public organisations demonstrating to Parliament and the public their competence, reliability, and honesty in their use of public money and other public resources. This discussion paper explores how well New Zealand's public accountability system is working in practice.	On the Office of the Auditor-General's website under publications. Link: Building a stronger public accountability system for New Zealanders
Setting and administering fees and levies for cost recovery	
This good practice guide provides guidance on settings fees and levies to recover costs. It covers the principles that public organisations should consider when making any decisions on setting and administering fees and levies.	On the Office of the Auditor-General's website under publications.

Description	Where to find it
It also sets out the matters public organisations should consider when calculating the costs of producing goods or providing services and setting charges to recover those costs.	Link: Setting and administering fees and levies for cost recovery: Good practice guide
The Office of the Auditor-General, the Treasury and Audit New Zealand have jointly prepared good practice guidance on reporting about performance. The guidance provides good practice examples from public organisations in central government. Those working in other sectors may also find this useful.	On Audit New Zealand’s website under good practice. Link: Good practice in reporting about performance — Audit New Zealand (auditnz.parliament.nz)
Managing conflicts of interest involving council employees	
This article discusses findings across four councils on how conflicts of interest of council employees, including the Chief Executive and staff, are managed.	On the Office of the Auditor-General’s website under publications. Link: Getting it right: Managing conflicts of interest involving council employees
Establishing a new “public entity”	
This document is for people making policy decisions about establishing a new public entity. It sets out questions to help you consider what accountability requirements a new public entity should have.	On the Office of the Auditor-General’s website under publications. Link: Accountability requirements to consider when establishing a new “public entity”
Covid-19 implications for financial reporting and audit in the public sector	
Audit New Zealand Executive Director, Steve Walker and Head of Accounting, Robert Cox, joined an online panel hosted by Victoria University of Wellington and the External Reporting Board. They discussed the effects of Covid-19 and the economic recovery on financial reporting and audit in the public sector.	On our website under good practice. Link: Covid-19 page Link: Webinar
Model financial statements	
Our model financial statements reflect best practice we have seen. They are a resource to assist in improving financial reporting. This includes: <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and 	Link: Model Financial Statements

Description	Where to find it
<ul style="list-style-type: none"> including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	
Tax matters	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under good practice</p> <p>Link: Tax Matters</p>
Client substantiation file	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a collection of resources called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a toolbox to help you collate documentation that the auditor will ask for.</p>	<p>On our website under good practice.</p> <p>Link: Client Substantiation File</p>
Sensitive expenditure	
<p>The Auditor-General’s good practice guide on sensitive expenditure provides practical guidance on specific types of sensitive expenditure, outlines the principles for making decisions about sensitive expenditure, and emphasises the importance of senior leaders “setting the tone from the top”. It also describes how organisations can take a good-practice approach to policies and procedures for managing sensitive expenditure.</p>	<p>On the Office of the Auditor-General’s website under good practice.</p> <p>Link: Sensitive expenditure</p>
Conflicts of interest	
<p>The Auditor-General has published guidance on conflicts of interest. A conflict of interest is when your duties or responsibilities to a public organisation could be affected by some other interest or duty that you have.</p> <p>The material includes a printable A3 poster, an animated video on predetermination and bias, gifts and hospitality, and personal dealings with a tenderer. There is also an interactive quiz.</p> <p>These can all be used as training resources for your own employees.</p>	<p>On the Office of the Auditor-General’s website under 2019 publications.</p> <p>Link: Conflicts of interest</p>

Description	Where to find it
Severance payments	
<p>Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny.</p> <p>The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payment to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.</p>	<p>On the Office of the Auditor-General’s website under 2019 publications.</p> <p>Link: Severance payments</p>
The Auditor-General’s report on the results of recent audits	
<p>The Office of the Auditor-General publishes a report on the results of each cycle of annual audits for the sector.</p>	<p>On the Office of the Auditor-General’s website under publications.</p> <p>Links: Local government 2019/20 audits</p>
Good practice	
<p>The Office of the Auditor-General’s website contains a range of good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. 	<p>On the Office of the Auditor-General’s website under good practice.</p> <p>Link: Good practice</p>

Description	Where to find it
Procurement	
<p>The Office of the Auditor-General are continuing their multi-year work programme on procurement.</p> <p>They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.</p> <p>Whilst this is focused on local government, many of the questions are relevant to all types of public sector entities.</p>	<p>On the Office of the Auditor-General's website under publications.</p> <p>Links: Strategic suppliers: Understanding and managing the risks of service disruption</p> <p>Getting the best from panels of suppliers</p> <p>Local government procurement</p>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Urgent		
<p>Sensitive expenditure</p> <p>The Sensitive Expenditure Policy should be reviewed and updated.</p> <p>Necessary training needs to be provided to all relevant staff and those charged with governance to ensure full acceptance and implementation of the new policy and practices.</p> <p>Implement robust controls over the review and approval of sensitive expenditure.</p> <p>Implement processes to ensure that breaches of the Sensitive Expenditure Policy are adequately addressed.</p>	2018	<p>No progress</p> <p>The Sensitive Expenditure policy has not been updated.</p> <p>Management comment</p> <p><i>A review of all the finance policies including Sensitive Expenditure is currently under way.</i></p>
Necessary		
<p>General ledger reconciliations</p> <p>Reconciliations across all aspects of the financial system need to be performed and independently reviewed in a timely manner, with evidence of the reviews occurrence to be appropriately retained.</p> <p>No evidence of review of general ledger reconciliations and creditors masterfile changes.</p> <p>All reconciliations should be independently reviewed in a timely manner.</p>	<p>2017 interim audit</p> <p>2020</p>	<p>Issue remains open</p> <p>Not all general ledger reconciliations were reviewed throughout the financial year. We will re-look at this during the interim in FY23.</p> <p>Management comment</p> <p><i>A general ledger reconciliation programme has been implemented during 2022/23 to cover all accounts on a risk basis. Expect that this can be closed at 2023 Audit.</i></p>
<p>Fraud risk management</p> <p>Include in the Fraud Policy a process for undertaking regular review of transactions, activities, or locations that may be susceptible to fraud.</p> <p>Undertake regular review of transactions, activities, or locations that may be susceptible to fraud once the process is established.</p>	2018 interim audit	<p>Fraud Policy not yet updated to this effect.</p> <p>Management comment</p> <p><i>As noted above a review of the finance policies including fraud risk is currently underway.</i></p>

Recommendation	First raised	Status
<p>Formal disaster recovery plan</p> <p>A disaster recovery plan should be developed to ensure that the IT systems can be recovered in the event of a disaster. These plans should be tested and should be available in multiple locations to ensure they can be accessed if required.</p>	<p>2018 interim audit</p>	<p>Disaster recovery plan not yet developed</p> <p>A disaster recovery plan should be developed to ensure that the IT systems can be recovered in the event of a disaster. These plans should be tested and should be available in multiple locations to ensure they can be accessed if required.</p> <p>Management comment</p> <p><i>A plan is in place for the recovery of IT systems in the event of a disaster. This is regularly tested on a system by system basis.</i></p>
<p>Application of group accounting policies</p> <p>We recommended that the City Council:</p> <ul style="list-style-type: none"> • reviews the accounting treatment applied to subsidiaries fixed assets and identify inconsistencies with the group accounting policies; and • ensures group accounting policies are consistently applied across the group entities where possible. 	<p>2018 interim audit</p>	<p>Issue remains open</p> <p>No change.</p> <p>Management comment</p> <p><i>No Change.</i></p>
<p>Performance reporting</p> <p>Complete an internal review of the systems and controls in place to accurately record the number of customer complaints relating to drinking water.</p> <p>Regularly monitor and accurately report on all performance measures.</p> <p>We recommend that the City Council ensures all information relating to customer satisfaction/ complaints relating to drinking water is accurately recorded in Pathway and that Pathway is complete. In addition Pathway should be reconfigured to ensure the six categories of the customer satisfaction measure are matched in order to reduce an element of bias and judgement.</p>	<p>2019 interim audit</p> <p>2020</p>	<p>In progress</p> <p>Management comment</p> <p><i>In progress.</i></p>

Recommendation	First raised	Status
<p>Accounts payables processes and procedures to improve</p> <ul style="list-style-type: none"> Evidence of review of masterfile changes and reviews should be performed in a timely manner and be retained to ensure identification of anomalies and their timely resolution. Implement the internal audit recommendations raised by Deloitte. 	<p>2021 final audit and re-raised in 2022 interim audit</p>	<p>Issue remains open</p> <p>No change.</p> <p>Management comment</p> <p><i>Changes are currently being implemented with ongoing system and process changes.</i></p> <p><i>It is noted that supplier Masterfile changes require multiple sign offs and checks.</i></p> <p><i>Due to staff availability Masterfile changes have not been reviewed monthly but given the other controls this is not seen as a critical control.</i></p>
<p>Operating lease commitments</p> <p>Perform a thorough review of leases and ensure that lease commitments include the possibility of a renewal only where it is likely both parties to a lease agreement will exercise the renewal option.</p>	<p>2021 final audit</p>	<p>No progress made</p> <p>The audit identified several leases that used the final expiry date as the expiry date of the lease and not the renewal date (in contravention of PBE IPSAS 13).</p> <p>Management comment</p> <p><i>The comment is noted and those providing this information will be reminded of how this should be interpreted.</i></p>
<p>Non-compliance with certain sections of the Local Government Act 2004</p> <p>Ensure all council-controlled organisations are publishing their annual reports, half yearly reports and statement of intents on the City Council’s website. Prior years’ annual reports should be uploaded to ensure compliance with the above-mentioned sections.</p>	<p>2021 final audit</p>	<p>Issue remains open</p> <p>Management comment</p> <p><i>This has been completed.</i></p> <p>Additional auditor’s response</p> <p><i>We will inspect this during the FY23 audit to determine if this matter can then be closed.</i></p>
<p>Approval of CE sensitive expenditure</p> <p>In line with good practice, we recommend all sensitive expenditure is approved on a “one-up” basis, in this case the Chair of the Audit and Risk Committee could be the one-up approver.</p>	<p>2022 interim audit</p>	<p>In progress</p> <p>Refer to findings in section 6.5.</p> <p>Management comment</p> <p><i>Refer to management comment in 6.5 but do note that all was reported to the Risk and Assurance committee.</i></p>

Recommendation	First raised	Status
<p>Process for matching invoices and purchase orders</p> <p>We recommend the City Council consider altering the matching requirements to add in a restriction based off the lower of a fixed value and a percentage of the purchase order.</p>	2022 interim audit	<p>In progress</p> <p>Management comment</p> <p><i>Adjustments have been made to accounts payable matching process as can be made within.</i></p>
Beneficial		
<p>Implementation of asbestos management plan</p> <ul style="list-style-type: none"> • Develop an asbestos management plan to review and reduce the impact of asbestos. • Continue performing regular assessments of the carrying value of the buildings to ensure these are appropriate. 	2019 final audit	<p>In progress</p> <p>Management comment</p> <p><i>Regular assessments continue to be undertaken.</i></p>
<p>Bribery and corruption</p> <ul style="list-style-type: none"> • Develop a policy specifically relating to bribery and corruption in the workplace. • Consider where the City Council is most at risk for bribery and corruption. • Provide training for staff on key policies and procedures. • Implement a process for handling instances of attempted bribery and corruption. • Ensure the policy covers areas such as allegations, investigations and training relating to bribery and corruption. • Complete a review to ensure there are adequate controls in place to reduce the risk of bribery and corruption occurring. 	2019 final audit	<p>No progress</p> <p>No policy has been implemented.</p> <p>Management comment</p> <p><i>As noted above policies are currently being reviewed.</i></p>
<p>Review of policies</p> <p>Review all out of date policies as resourcing allows.</p>	2022 interim audit	<p>In progress</p> <p>Management comment</p> <p><i>This duplicates earlier comments and note that interim audit findings were received after balance date and suggest that it should be closed.</i></p>

Recommendation	First raised	Status
		<p>Additional auditor's response</p> <p><i>We will inspect this during the FY23 audit to determine if this matter can then be closed.</i></p>
<p>Access to the cost allocation model</p> <p>In line with good practice, we recommend the City Council investigate placing access and edit restrictions over the cost allocation model.</p>	2022 interim audit	<p>In progress</p> <p>Management comment</p> <p><i>Closed - Access is currently restricted to finance (accounting) team.</i></p> <p>Additional auditor's response</p> <p><i>We will inspect this during the FY23 audit to determine if this matter can then be closed.</i></p>

Implemented or closed recommendations

Recommendation	First raised	Status
<p>Revaluation of property, plant and equipment</p> <ul style="list-style-type: none"> It is important that the management completes the fair value assessment at an early stage to ensure the extent of asset value movements can be assessed early and to avoid the risk of this becoming a significant issue at a late stage of the audit if a potentially significant movement is identified. Perform a full revaluation exercise for assets held under the revaluation model and ensure robust and verifiable inputs are used in the process such as use of contract unit prices. Ensure the revaluation methodology, assumptions and judgements used are peer reviewed by an expert if the exercise has been performed in-house. 	2021 final audit	<p>Closed</p> <p>Full revaluation was carried out for revalued asset classes during the financial year.</p>

Recommendation	First raised	Status
<p>Clarity of delegations register</p> <p>Ensure the delegations register is clear and can be understood as a standalone document or at a glance.</p>	2021 final audit	<p>Closed</p> <p>Delegation register structure was adopted in December 2021.</p>
<p>WasteNet’s chart of accounts and written manual</p> <ul style="list-style-type: none"> • Implement a written manual with well documented processes and procedures and the accounting treatment of WasteNet transactions as these assists in handover takeover processes to ensure correct accounting treatment. • Consider separating the general ledger transactions of WasteNet from that of the City Council to avoid significant errors resulting from posting into the wrong accounts. 	2020	<p>Closed</p> <p>WasteNet transactions are maintained in a separate cost centre within the City Council’s general ledger.</p>
<p>Self-approved journals</p> <ul style="list-style-type: none"> • Enforce the independent posting of journal entries to ensure segregation of duties. • Investigate and implement the options available in TechOne which prevents the same user from creating and posting their own journals. 	2021	<p>Closed</p> <p>We reviewed all journal posted during the year and identified automated journals that were created and posted by the same users. However for manual journals, we did not identify any journals that were created and posted by the same users. Issue is now closed.</p>
<p>Holiday’s Act 2003 non-compliance</p> <ul style="list-style-type: none"> • Seek legal advice to assess the scale of the potential legal obligation as a result of any non-compliance with the Holidays Act 2003 (the Act). • Perform a more thorough and detailed review of this matter including any further exposure and estimate of the potential liability. • Identify the payroll system improvements needed to ensure compliance with the Act going forward. 		<p>Closed</p>

Appendix 2: Corrected misstatements

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Prior year misstatements reversing this year					
Property, plant and equipment	1	310,000			
Investment property		(310,000)			
Investment property	2	(500,000)			
Bank		497,000			
Loss on sale					3,000
This year misstatement – Parent					
Share of profit of associates and JVs	3				165,600
Investment in associates and JVS		(165,600)			
General expenses	4				(183,000)
Receivables		188,000			
Inventories		(1,000)			
Trade and other payables			(4,000)		
General expenses	5				235,000
Trade and other payables			(235,000)		
Total parent		21,400	(239,000)	0	217,600
This year misstatement – Group – Consolidation					
General expenses - expense omitted from V1 report	6				1,012,000
General expenses - rounding					(1,000)
Share of associates and JV surplus - figure in V1 report didn't match working file					(358,000)

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Income tax expense - error in V1 - added as credit instead of debit (\$2,207 x 2)					4,414,000
Cash and cash equivalents - correction to working file - figure entered incorrect		146,000			
Retained earnings - correction to working file - figure entered incorrect					(146,000)
Receivables - movement Council accounts		188,000			
Receivables - rounding		(1,000)			
Trade and other payables - movement Council accounts		(4,000)			
General expenses - movement Council accounts					(183,000)
Receivables - additional elimination journal		(83,000)			
Trade and other payables - additional elimination journal			83,000		
Investment in associates and JVs - correction to elimination journal		101,000			
Deferred tax assets - additional consolidation journal		245,000			
Rounding					1,000
Retained earnings - rounding				1,000	
Direct charges revenue - additional elimination journal					948,000
General expenses - additional elimination journal					(119,000)

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Income tax expense - elimination journal corrections					(741,000)
Property, plant and equipment revaluation gains / (losses) - additional elimination journal					706,000
Retained earnings - additional elimination journal				(347,000)	
Investment property - change to subsidiary financials		205,000			
Tax payable - change to subsidiary financials			3,000		
Other reserves - change to subsidiary financials			1,890,000		
Retained Earnings - change to subsidiary financials				(1,890,000)	
Advances to associates and JVs - change to subsidiary financials		2,293,000			
Deferred tax liabilities - change to subsidiary financials			(54,000)		
Borrowings (current portion) - change to subsidiary financials			(22,746,000)		
Borrowings (non-current) - change to subsidiary financials			22,746,000		
Other gains - change to subsidiary financials					(539,000)
Rental revenue - change to subsidiary financials					130,000

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Finance revenue - change to subsidiary financials					1,249,000
Income tax expense - change to subsidiary financials					51,000
Property, plant and equipment revaluation gains / (losses) - change to subsidiary financials					1,890,000
Retained earnings - change to subsidiary financials				(2,447,000)	
Total group		3,090,000	1,922,000	(4,683,000)	8,314,000

Management comment

It is noted that a large number of the later adjustments were due to changes required to be made to the Subsidiaries financial statements. We also note that the audit of the consolidation was commenced prior to the audit sign off of the subsidiaries.

Additional auditor's response

We do not agree with management comment as this is not factually correct. There were only two adjustments that were made within the subsidiary accounts and the majority of errors were coming through the consolidation due to the Council not performing a quality consolidation.

Explanation of uncorrected misstatements

- 1 To reclass from investment property to property, plant and equipment for service delivery land.
- 2 To recognise the sale of the investment property.
- 3 To recognise the discrepancies in calculating the share of profit of associates/JVs.
- 4 To recognise journals processed from version 1 to 4 of the annual report.
- 5 To recognise journals processed from version 4 to 5 of the annual report.
- 6 To recognise errors identified in the consolidation workings from version 1 to 4 of the annual report.

Corrected disclosure deficiencies

Detail of disclosure deficiency

Account check on the first draft financial statement

- To amend the mention of Annual Plan to Annual Report.
- To update the commentary under Total Rates Increase section.
- To update total assets number for 2021/22 under Debt Affordability Benchmark.
- To update 2019/20 result under Debt Servicing Benchmark.
- To update financial liabilities and actual net debt for 2019/20 under Debt Control Benchmark and the respective graph.
- To update the Annual Plan 2020/21 figures under Funding Impact Statement (numbers disclosed were from 2018-28 LTP and not 2021-2031 LTP).
- To insert the 2021 results for SSP Sewerage measure.
- To remove 2021 results inputted for new measures disclosed for the first time in 2022.
- To update the measures and level of services to be consistent with 2021-2031 LTP document.
- To insert under the basis of preparation that account was prepared in accordance with Tier 1 PBE accounting standard.
- To update prior year disclosure that was not consistent with 2021 audited account under cash and chase equivalent section, PPE useful life, Intangible assets, operating lease as lessor, movement in carrying value of associates, subvention payment.
- To update current year commitment disclosure.
- To update note number reference within the draft account.
- To update the correct calculation of Payment to councillors.

Misstatement raised as a result of audit work performed

- Council Structure – to update Council’s shareholding in SRDA to 48.73% and to add in ICFL in the Council Structure under CCOs. Also add a comment that they were wound down August 2021.
- Misstatements under all the Benchmarks:
 - to align the wording used to those used in 2021-31 LTP document; and
 - to update the format of all the benchmark graphs so they are aligned to the requirement under Local Government (Financial Reporting and Prudence) Regulations 2014.
- FIS reconciliation to Financial Statements:
 - to update ‘movement in reserve’ and ‘capital funding application’ and make sure they are consistent with the number disclosed in the financial statement; and
 - to update increase in borrowing so that the number reconciled to the increase in borrowing in the SOFP. It was incorrectly updated in v.5.
- CCO section: SRDC – to update the wording to be consistent as per the wording used in SRDA signed account.

Detail of disclosure deficiency

- CCO section: ICHL – to update the target to reflect the target disclosed in 2021-31 LTP document and to update ICHL’s current year performance result due to the impact of ICL shares valuation impairment on ICHL’s profit and loss and rate of return on equity funds.
- Note 1 Summary of Accounting Policy – to update the Southland Regional Development Agency voting right from 18.75% to 48.73%.
- Note 2 Revenue:
 - to update the total rateable land and building value to make them consistent with the value as per QV report; and
 - to remove construction contracts and add in subsidies and grant accounting policy.
- Note 6.1 Auditor Remuneration – to update the audit fees to be in line with amount disclosed in the Audit Proposal letter and update the audit recovery fees of prior year. To also remove the fees paid to Deloitte for internal audit carried out as cost of internal audit are not considered auditor remuneration.
- Note 7 Income Tax - to remove the disclosure on imputation tax credit.
- Note 8 Cash and Cash Equivalents – to remove bank balance that does not belong to Council and thus not meet the definition of assets, such as BNZ Petrol Tax balance.
- Note 11 Property, Plant and Equipment – to update the wording of the policy so be in line with model account.
- Note 11.4 Revaluation:
 - to update the narrative to reflect the revaluation taken place during the year (Land and Building and Infrastructure assets) such as, valuer details, valuation methodology, assumptions; and
 - to add in that indexing has been used as part of the roading valuation method.
- Note 12 Intangible:
 - to remove Goodwill from the note as it has a nil carrying value and remove goodwill from accounting policy; and
 - to insert in WIP balance under intangible assets as it was initially disclosed but removed in the second draft
- Note 14 Capital Commitments and Operating Lease:
 - to update the entire note disclosed due to incorrect workings reflected in the first draft including narrative and numbers disclosed;
 - to include capital commitment of associates and JV as required by the standard; and
 - to remove the wording of investment commitments applicable to prior year but no longer applicable to the current year.
- Note 17 Joint Venture – to update the accounting policy so they comply with GAAP, such as remove the reference to a line-by-line basis using proportional method.
- Note 17.2 Investment in joint ventures and joint operations – to update the numbers for Venture Southland as the numbers were misaligned and keyed in different rows. They also do not add up correctly.

Detail of disclosure deficiency

- Note 18.1 Other Financial assets:
 - to update the narrative around the ICL loan and its maturity date and update the sum of total assets by fixing the excel formula to sum both current and non-current portion; and
 - to update the wording in the accounting policy to clearly show the measurement and recognition criteria of each of the balances in Other Financial Assets.
- Note 19.1 Derivative:
 - The derivative contractual cash flows was currently on the liabilities line when it should be on the assets line with the carrying amount.
 - Council have incorrectly calculated the impact on equity from movement of +/- 1% interest rate.
 - The table should show the movement in valuation from the current amount to the valuation at +/- 1% interest and not the new valuation at +/- 1%.
- Note 19.2 Borrowings and Other Financial Liabilities:
 - the accrued interest of \$562k is currently disclosed all under current secured loans - this is incorrect treatment as not all of the interest relates to the secured loans;
 - to also update the maturity analysis and reclassify a \$10m LGFA Debt from later than five years to 1-5 year bracket; and
 - to ensure consistent between the numbers disclosed in notes disclosure and maturity analysis.
- Note 19.4 Classification and fair value of financial instruments – to update the total in the fair value measurement to reconcile to total assets as per reconciliation note.
- Note 22 Equity – to update the movement in asset revaluation reserves for Land and building and Infrastructural assets to be consistent to the revaluation increase as per Note 10 PPE.
- Note 23 Contingent liability:
 - to update the wording for the 3 waters reform;
 - to remove a section on Holidays Act 2003 as the provision had been calculated by an in-house payroll team;
 - to remove a section on shovel ready projects - the nature of revenue in advance is already recognised as a liability as the amount can be reasonably estimated this does not meet the definition of contingent liability; and
 - to update the LGFA cross guarantee amount to the latest figure.
- Note 24.2 Reconciliation of movement in financial liabilities to net cash flows from financing activities – to add in a column for derivative instrument liability.
- Note 25 Related Parties:
 - The \$218k disclosed for 2021 IPAG grants should be updated to agree with the signed 2021 accounts which showed \$253k.
 - Per ICHL accounts, the services provided totalled \$520k (\$368 + \$152). The \$554k currently disclosed should be updated to reflect this.

Detail of disclosure deficiency

- Per IAL accounts, the services provided totalled \$66k. The \$23k currently disclosed should be updated to reflect this.
- Note 25.4 Subvention payment – to update the wording and numbers disclosed to reflect payment made in the current financial year.
- Note 27.1 – Key Management Personnel disclosure:
 - to update the number of executive leadership team from 12 to 9.
 - to remove \$1,521 hearings fee from councillor's short-term benefit disclosure as the amount does not meet the definition of council's remuneration per Local Government framework.
- Note 27.5 Council Employees - the employee banding disclosed does not comply with schedule 10 clause 32 (3). The clause states that if a band of employees is less than 5, then that band must be combined with the next highest band. This has been incorrectly applied for the ICC banding as ICC wanted this to be consistent with prior years.
- Note 31 Critical judgments, estimates and assumptions in applying Council's accounting policies – to update the missing words under infrastructural assets section.
- Note 32 Three Water Delivery Services – to update the wording and date that the legislation was enacted by the Parliament.
- The introduction of PBE IPSAS 40, *Combinations*, replacing PBE IFRS 3, *Business Combinations*. To update reference from “business combinations” to “PBE combinations” or “an acquisition” and references to PBE IFRS 3, *Business Combinations* throughout the draft to be updated to refer to the new standard IPSAS 40 PBE, *Combinations*.
- Throughout the draft financial statement, to remove blank lines with no numbers disclosed.
- To remove a section on legislative requirement for CCOs.
- To add in disclosure relating to the settlement of Sir Tim case.
- To add in disclosure relating to the breach of statutory deadline.
- To update the page number and note reference.
- To add in a disclosure on ICL loan and an increase credit risk associated with the loan.
- To update the page number on the content page.

Corrected performance reporting misstatements

Detail of misstatement
<p>Council activities</p> <ul style="list-style-type: none"> To update achievement from 17 of 18 measures to 15 out of 16 measures.
<p>Water</p> <ul style="list-style-type: none"> To update the prior year target for Measure: The average consumption of drinking water per day per resident. To add a note to the published measures explaining the selection method in relation to the classification of the request. To add a footnote to disclose if every call is treated as complaint, then the rate per 1000 property is 1.73. To separate out DIA measures and disclose the results for each DIA measures and update prior year target, such as number of abatement notices, infringement notices, enforcement notices and convictions. To update the current year result as audit work shows that the results disclosed by Council is materially different from the results re-calculated by audit for Measure: Total number of complaints received by Council per 1,000 connections.
<p>Sewerage</p> <ul style="list-style-type: none"> To update the current year result as audit work shows that the results disclosed by Council is materially different from the results re-calculated by audit for Measure: Number of Dry Weather Sewerage overflows. To update the current year result as audit work shows that the results disclosed by Council is materially different from the results re-calculated by audit for Measure: DIA Performance measures for customer satisfaction in term of the number of complaints received.
<p>Stormwater</p> <ul style="list-style-type: none"> To update the current year result as audit work shows that the results disclosed by Council is materially different from the results re-calculated by audit for Measure: DIA Performance measures for customer satisfaction in term of the number of complaints received about the performance of Stormwater system.
<p>Roading services</p> <ul style="list-style-type: none"> To update number of crashes in the prior year for Measure: The number of and change from the previous financial year in the number of fatalities and serious injury crashes. To disclose the current year result and prior year target for Measure: The percentage of the sealed local road network that is resurfaced. To disclose the current year result and provide more context in term of what the current year level of service/ service standard was for Measure: The percentage of footpath within the district that fall within the level of service. To remove the prior year result and disclose that the measure is new this year for Measure: An Invercargill street lighting fault is responded to promptly.

Detail of misstatement

Solid Waste Management

- To update add in a footnote to explain 'achieved' result when the trend was downturn for Measure: Trend in diverted material.

Regulatory Services

- To update the prior year result and remove new measure reference for Measure: We promote incentives to owners of heritage building.
- To update the target so that it is in line with 2021-31 LTP document for Measure: Trails (km per 1000 residents).

Aquatic Services

- To update the prior year result and remove new measure reference for Measure: User Satisfaction Survey shows 85% or more rate the overall quality as satisfaction or above.

Arts, Culture and Heritage

- To update the target so that it is in line with 2021-31 LTP document for Measure: He Waka Tuia – Number of visits.

Appendix 3: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the City Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General’s Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The City Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Local Authority in accordance with the independence requirements of the Auditor-General’s Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1, <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit and our report on the disclosure requirements, we have performed a limited assurance engagement related to the City Council’s Debenture Trust Deed. This engagement is compatible with those independence requirements.</p> <p>Other than these engagements, we have no relationship with, or interests in, the City Council or its subsidiaries and controlled entities.</p>
Fees	<p>The audit fee for the year for the Parent is \$157,000 and \$266,000 for the Group as detailed in our audit proposal letter.</p> <p>Other fees charged in the period for the Parent are \$40,000 and for the Group \$59,000 for cost recovery fees from the 2021 audit of the financial statements and \$7,000 for the audit of the City Council’s Debenture Trust Deed.</p> <p>In addition, we charged an additional \$95,000 for the 2022 audit in the financial year 2023 for additional audit time spent on the property, plant and equipment revaluation work and due to client inefficiencies.</p>

Area	Key messages
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the City Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the City Council or its subsidiaries during or since the end of the financial year.</p>

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