

Agenda 2020

Performance, Audit and Risk Committee

Date: Thursday, 26 March 2020

Time: 2.00pm – 3.00pm

Venue: Virtually via Microsoft Teams (due to COVID-19 situation)



Adopted by Council 11 April 2019

PERFORMANCE, AUDIT AND RISK COMMITTEE

TERMS OF REFERENCE

1. MEMBERSHIP AND QUORUM

a) The Committee shall consist of

- at least five Councillors; and
- at least one independent member (that is, a member who is neither a Councillor nor a staff member, appointed to the role by the Council).

Council can appoint additional members for a period of time when their appointment is deemed necessary for the Committee to discharge its function.

The quorum shall be three members.

2. OBJECTIVES

The objectives of the Committee are to assist the Council to provide oversight of:

- a) financial and non-financial reporting including strategic performance management and operational performance,
- b) risk management (including cash and investment management),
- c) internal control systems including compliance with laws and regulation,
- d) satisfying itself about the existence and quality of cost-effective internal control and risk management systems, and the proper application of processes; and
- e) the external audit process, including:
 - monitoring the Council's external and internal audit process;
 - engaging with Council's external auditors regarding the external audit work programme and agreeing the terms and arrangements of the external audit;
 - reviewing the effectiveness of the annual audit and 10-year plan audit;
 - monitoring management responses to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented.

3. ATTENDANCE AT MEETINGS

- a) Unless otherwise requested the Chief Executive and the Director of Finance and Corporate Services are to attend meetings.
- b) Other parties, including other members of the Council, may be invited to attend by the Committee to assist the Committee in its work.
- c) The public are welcome to attend any meeting of the Committee, except for any part of a meeting where the public are excluded for the reasons set out in the Local Government Official Information and Meeting Act.
- d) External Auditors may attend meetings during the year.

- e) External Auditors (or Internal Auditors) may request a special meeting, if they consider this to be necessary.

4. DELEGATED POWERS

The Committee is authorised by the Council to:

- a) review matters within its Term of Reference,
- b) seek information that it requires, within its terms of reference, from the Chief Executive who is required to co-operate with appropriate requests made by the Committee,
- c) request access to outside legal or independent professional advice should it consider this necessary to meet the objectives set out in its terms of reference. Such independent advisors may attend meetings if so requested,
- d) undertake other such matters of a financial nature that the Committee may from time to time deem important; and
- e) make recommendations to the Council on matters outside of the Committee's delegated powers.

5. RESPONSIBILITIES

Responsibilities of the Committee shall be:

5.1 Financial Reporting including Strategic/Operational Performance Management

- a) Review the Annual Report, the draft financial statements and groups of activities prior to being finalised by the External Auditor.
- b) Consider any changes in accounting policies, standards or reporting requirements requiring Council approval.
- c) Review financial and non-financial results during the year and the progress towards the achievement of strategic priorities and levels of service (these measures and targets are subject to audit under the Local Government Act).
- d) Review the cost effectiveness of major programmes in delivering Environment Canterbury's contribution to strategic priorities and levels of service.
- e) Review the contributions from Government and other organisations. The Council's role is facilitating contributions from those organisations to achieve strategic priorities and levels of service in partnership with Environment Canterbury.
- f) To set criteria and review portfolio budgets, early in the budget cycle, to understand the reasons behind budget decisions and to ensure that budget proposals have been systematically and rigorously analysed, and to make recommendations that expenditure is required to meet strategic priorities.
- g) Receive and review reports on the performance of other Council commercial activities, including properties leased or rented to external parties.
- h) Consider matters relating to rating and other funding.
- i) Maintain an overview of our financial reserves policy to deal with unexpected financial contingencies.
- j) Maintain overview of contingent liabilities.

5.2 Risk Management (including cash and investment management)

- a) To review the risk management process to ensure the system for identifying, assessing, monitoring, mitigating and reporting strategic risks and key operational risks is adequate.
- b) To ensure risk management is integrated into strategic and operational management as business as usual.
- c) Appoint and review at least three yearly the Funds Manager contract in regard to the management of investment funds and as a result of that review, to determine that the contract may be extended or retendered.
- d) Review the performance of the investment portfolio, annually.
- e) Maintain an overview of overdue debt management.
- f) Maintain an overview of risk associated with Council-controlled trading organisations, if any exist.

5.3 Internal control systems including compliance with laws and regulation

- a) Consider any matters referred to it by an internal audit function.
- b) Review the proposed Annual Programme for the Internal Audit and recommend to Council.
- c) Satisfy itself about the existence and quality of cost-effective internal control systems and the proper application of procedures.
- d) Act on suspected or actual fraud and ensure failings or weaknesses that are identified from any review of internal controls have been, or are being, remedied.

5.4 External Audit

- a) The Auditor-General is the appointed External Auditor, in accordance with section 29B of the Public Finance Act 1989. The Committee must ensure it complies with both the Public Finance Act 1989 and Public Audit Act 2001. The Auditor-General is also auditor of all Council-Controlled Organisations, per section 70 of the Local Government Act 2002.
- b) Ensure that the provision of non-audit services by the External Auditors does not impair the auditors independence or objectivity.
- c) Discuss with the External Auditor, the nature and scope of the audit and review the Auditor's quality control procedures and changes in regulatory or other requirements.
- d) Review the External Auditor's management letter, ensuring that management's responses are adequate.
- e) Consider other matters referred to the Committee by the Council.

6. REPORTING PROCEDURES

- a) The Committee shall be accountable to the Council, in relation to the Committee's activities and responsibilities.
- b) The Committee shall review the Terms of Reference periodically or as circumstances require.
- c) The appointment of 'other appointee' (refer 1(b)) to the membership of the Committee shall be a decision of the Council.

Performance, Audit and Risk Committee

Membership

Committee Chair: Cr John Sunckell

Environment Canterbury Councillors:

Chair Jenny Hughey

Cr Claire McKay

Cr Ian Mackenzie

Cr Megan Hands

Cr Grant Edge

Independent Member: Graeme McGlinn

Performance, Audit and Risk Committee

Table of Contents

1. Apologies.....	9
2. Conflict of Interest	9
3. Deputations and Petitions.....	9
4. Risk	10
4.1. Health and Safety	10
4.2. Risk Standing Report.....	18
5. Performance	20
5.1. Action List	20
5.2. Portfolio Financial Report April 2020	21
5.3. Financial Health Reports April 2020	30
5.4. Public Transport Financial Performance Update	38
6. Audit.....	46
6.1. Civic Assurance Annual Report	46
6.2. Annual Report Audit Plan 30 June 2020.....	84
7. Public Excluded	127
8. Notices of Motion.....	128
9. Extraordinary and Urgent Business.....	128
10. General Business.....	128
11. Questions	128
12. Next Meeting.....	128
13. Closure.....	128

- 1. Apologies**
- 2. Conflict of Interest**
- 3. Deputations and Petitions**

4. Risk

4.1. Health and Safety

Performance, Audit and Risk Committee (PARC) Report

Date of meeting	28 May 2020
Author	Matthew Bennett Principal Health and Safety Advisor
Endorsed by	Miles McConway Director Finance and Corporate Services

Purpose

1. To provide a summary of information on Health and Safety matters to the Performance, Audit and Risk Committee.

Recommendations

That the Performance, Audit and Risk Committee:

1. Receive the Health and Safety Governance Report.

Attachments

1. Health & Safety - April 2020 [4.1.1 - 7 pages]

Health and Safety Report: April 2020

Summary

- The last health and safety report to the Performance, Audit and Risk Committee was on the 30th April. This report covers all events and activities from the 1st to 30th of April 2020.
- Health and Safety continued to work within the Crisis Management Team to support the unprecedented disruption resulting from the pandemic. The primary focus has been on anticipating the health risks and permitted work activities and preparing suitable work methods.
- Many H+S activities (reviews, inspections, safety tours) have been delayed due to either not being deemed an essential service or being lower priority.
- **Six incidents have been reported since the last report** (February 2020): Three insignificant and three minor events. All of these have been closed.
- As anticipated, we are seeing an increase in reports of ergonomic discomfort.

Health and Safety Strategy Work Programme

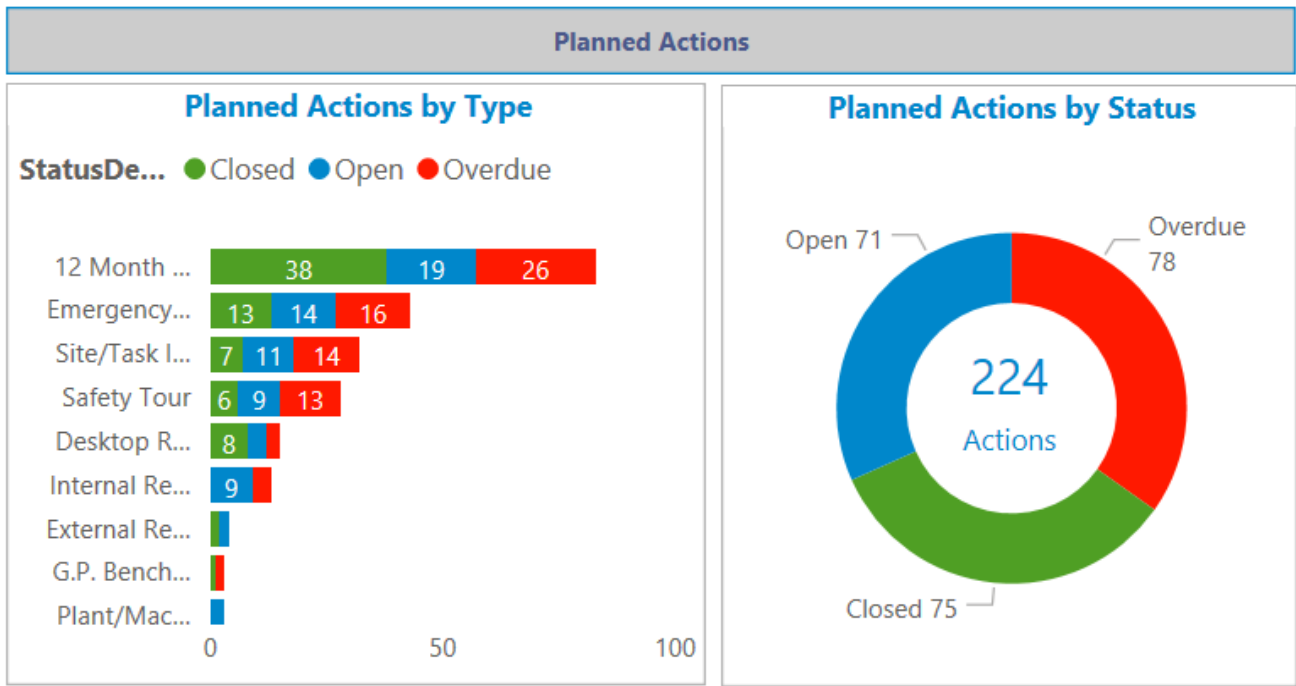
Strategy Update

Title	Description	Status	Status Comment	Progress to Date
Information and Data Management	Develop a digital tool to record, report and track progress and performance on H+S	On schedule / no issues	The primary work has been completed and gone live (Section H+S Planning tool). The final stage: development of H+S Dashboards required the data collected from the plans. This is underway and will go into testing towards the end of November, with an intention to go live in December 2019	95%
Visible Safety Leadership	Regular Safety Tours by Directors and Senior Leaders	On schedule / no issues	Safety Tours have now been incorporated into the Section H+S Plans and progress will be reported as a part of the lead indicator data.	100%
Information Sharing	Improving the methods of sharing health and safety information and learnings	Scoping	After implementing some additional methods of sharing information, we monitored its effectiveness. A number of events through August to October highlighted the need to for additional mechanisms and informed what to develop.	25%
Safe Systems of Work	Safe systems of work: Development, reviewing and updating of safe systems of work for all tasks / activities that expose Environment Canterbury workers to potential harm.	Minor delays / issues	The development of SSoW has been slow, primarily due to identifying what activities required to be documented. With the digital H+S plans this barrier has been overcome and accountability has been introduced. Progress will be reported as lead indicator data	25%
H+S4PL	Health and safety training for senior leaders: Develop an H+S training package for People Leaders	Complete	The initial courses were delivered to all identified People Leaders. The training is now in a BAU status and where it will be provided twice annually to all new People Leaders.	100%
Incident Management	Incident management and learning: Improve the quality of incident management and implementation of learnings	Minor delays / issues	Linked to the 'Information Sharing' item above, we are looking at how incidents can be shared in a timely manner to ensure that all people are well informed and able to act.	35%
Corrective Actions	Improvement and corrective actions: Develop and utilise an effective method for improvement and corrective actions including alerting and escalation of actions and reporting on progress	On schedule / no issues	An improvement and Corrective Actions Register and associated workflow has been built in SharePoint and is currently being tested - anticipated to go live towards the middle to end of November 2019	85%
Training and Competency Data	Training and competency data: Develop a training management system that enables clear view of training requirements and currency	Delayed / issues	This item has been identified as a high priority and work will begin on it in earnest in the new year.	20%
Contractor Management	Contractor management: Develop a centralised database and supporting resources to enable effective contractor management in line with the contractor management protocol.	Design	Resulting from a learning enquiry in August and the acceptance of a recommendation a significant piece of work is being led by the Risk and Business Improvement Manager that will increase H+S assurance in this area.	30%
Worksite Monitoring	Worksite inspections: Inspection Environment Canterbury worksites and activities as planned in the Section H+S Plans	On schedule / no issues	Targets for worksite inspections is now set in the H+S Plans and progress reported as a lead indicator	100%
H+S Survey	Health and safety staff survey: Designing of surveying method for collecting worker input on the performance and effectiveness of HSMS and Strategy. Survey results used to drive a feedback	Design		20%
Lone / Remote Worker Tracking and Communications	Develop and implement an 'All of Environment Canterbury' hardware, IT platform and process to implement the Critical Risk Rule: Lone / Remote Work	Design		25%

Lead Indicators

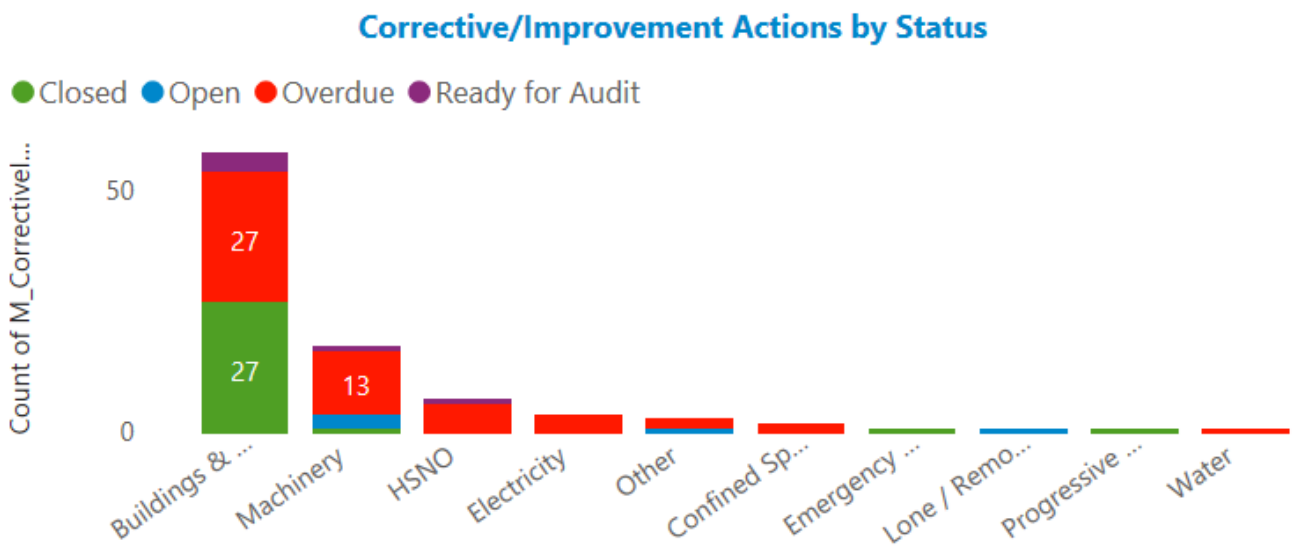
Lead indicators are any measure, data or information that provides an insight into performance without a system failure occurring.

Our Planned Actions provide a measurable event where we will intentionally look at how work is being undertaken under normal conditions.



Improvement and Corrective Actions

Upon completion (closing) of a task, the system automatically schedules an audit date that prompts for a follow up check to ensure that the improvement or corrective action is in place and effective. This process provides an additional layer of assurance to health and safety.



Lag Indicators

Lag indicators refers to any measure resulting from a failure. In the context of Environment Canterbury these are principally incidents.

Incidents from 1 April to 30 April 2020:

Id	Title	Date	Value	Section	Risk Category	Risk Sub Category	Actual Harm
687	Desk Based P+D	02/04/2020		Public Transport	Progressive Harm	Workstation Ergonomics	Moderate
682	Desk Ergonomics	03/04/2020		FS - Biosecurity	Progressive Harm	Workstation Ergonomics	Moderate
683	Possible COVID-19	17/04/2020		Zone Delivery	Environment	Disease	Insignificant
684	Possible COVID-19	20/04/2020		Zone Delivery	Environment	Disease	Insignificant
685	Possible COVID-19	28/04/2020		FS - Parks & Forests	Environment	Disease	Insignificant

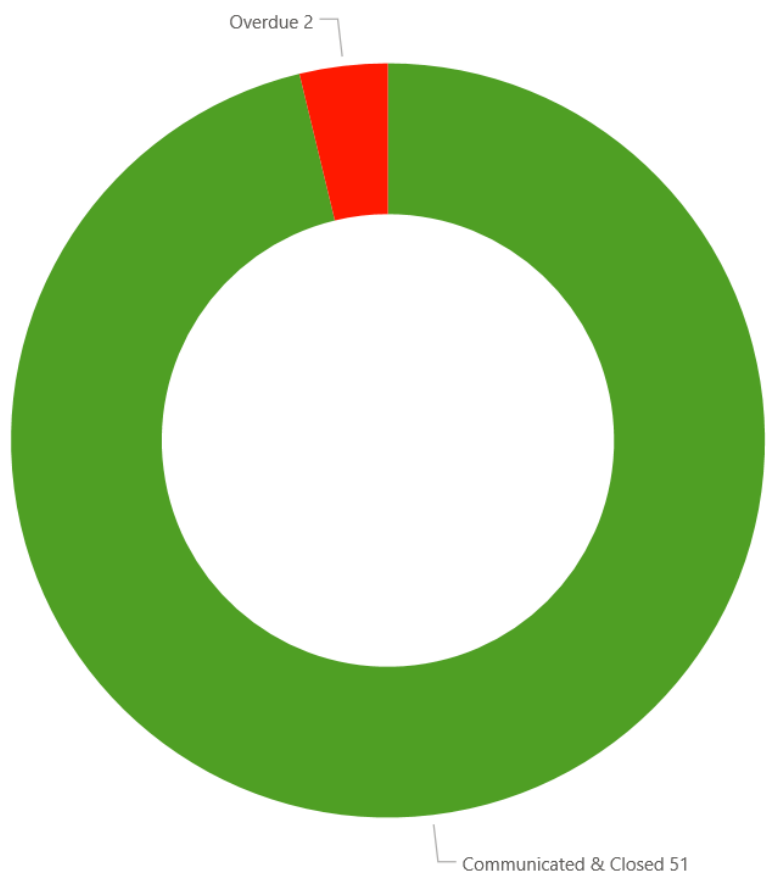
Year-to-date Summary

1 November 2019 – 30 April 2020

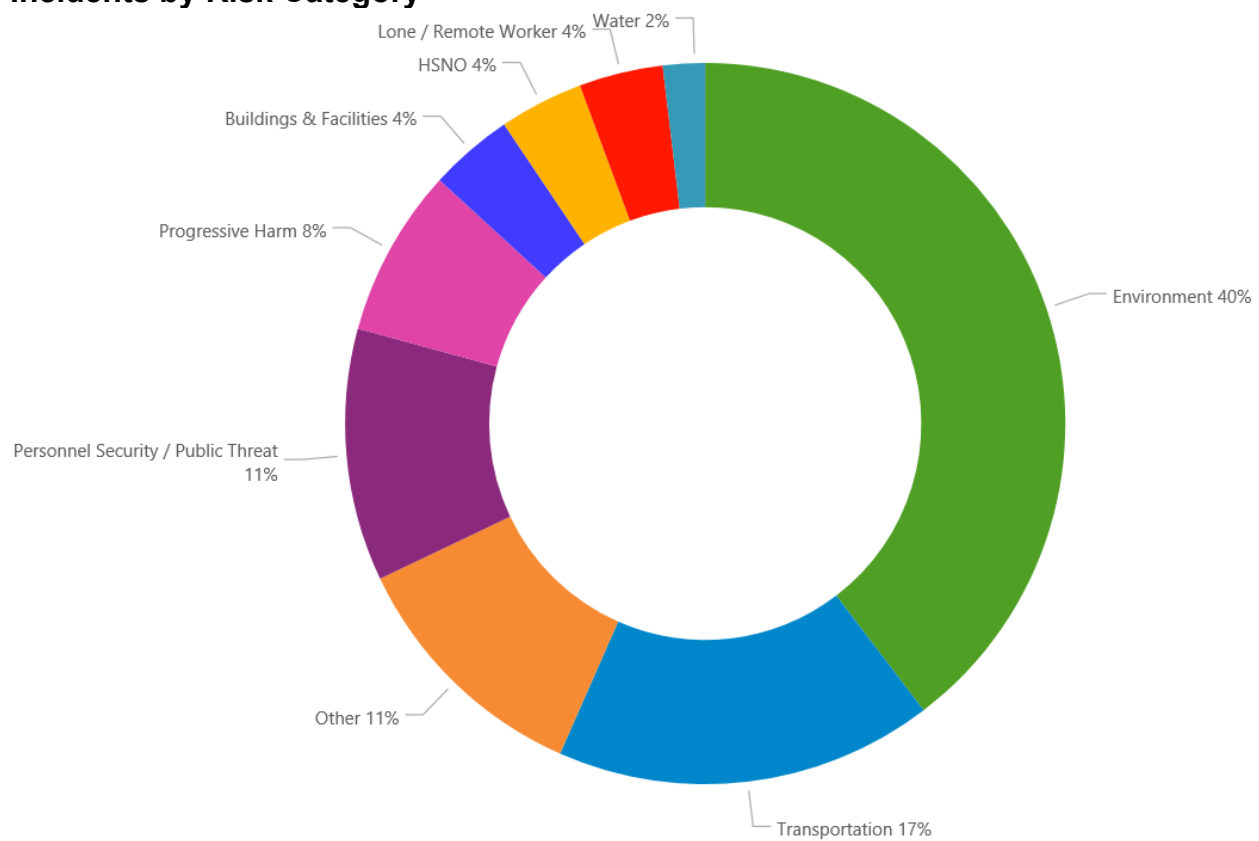
Incident by Impact and Group (Table)

	Insignificant	Minor	Moderate	Major & Catastrophic	Total (by Group)
Communications and Engagement	-	-	-	-	
Finance and Corporate Services	2		1		3
Operations	16	12	8		36
Science	5		2		7
Strategy and Planning		1			1
Contractors		1	2		3
Non-Workplace				2	2
Visitor / Public	-	-	-	-	
Total (by Impact)	23	14	13	2	52

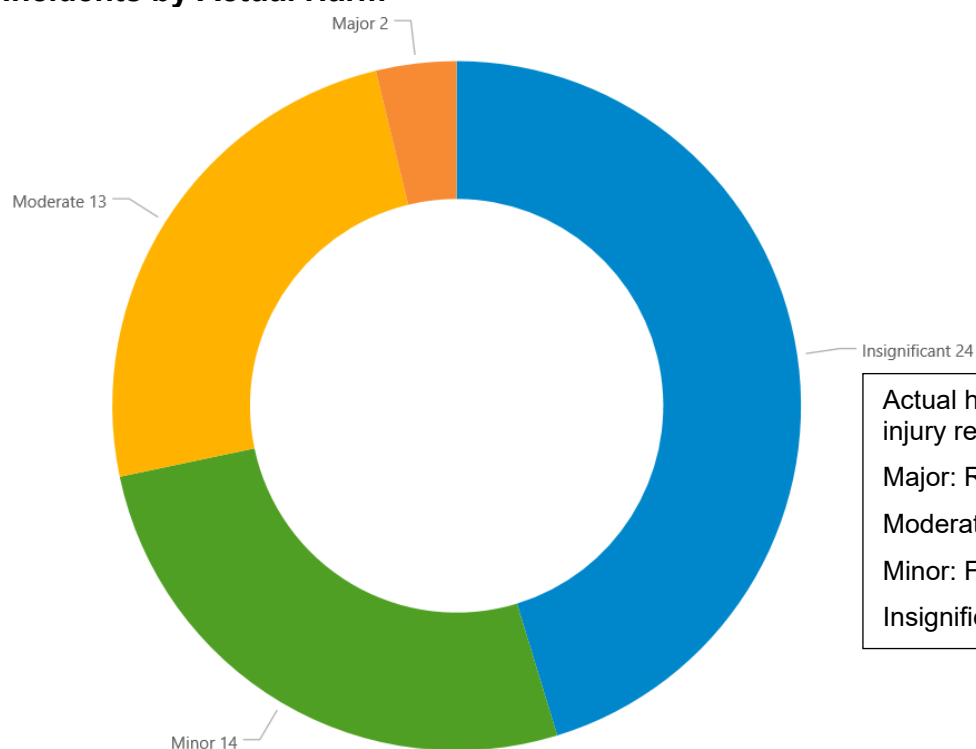
Incidents by Status



Incidents by Risk Category



Incidents by Actual Harm



Actual harm refers to the extent of injury resulting from the event:

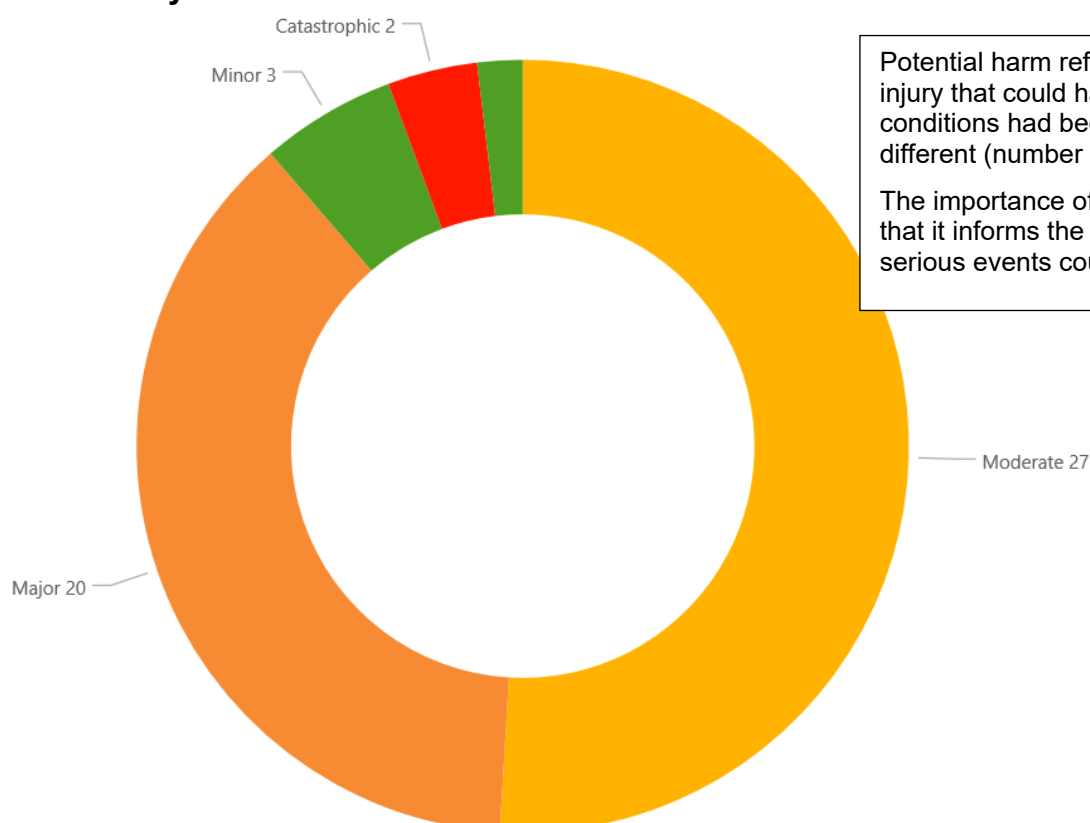
Major: Required surgery

Moderate: Required a Doctors' Visit

Minor: First Aid Kit used

Insignificant: No harm

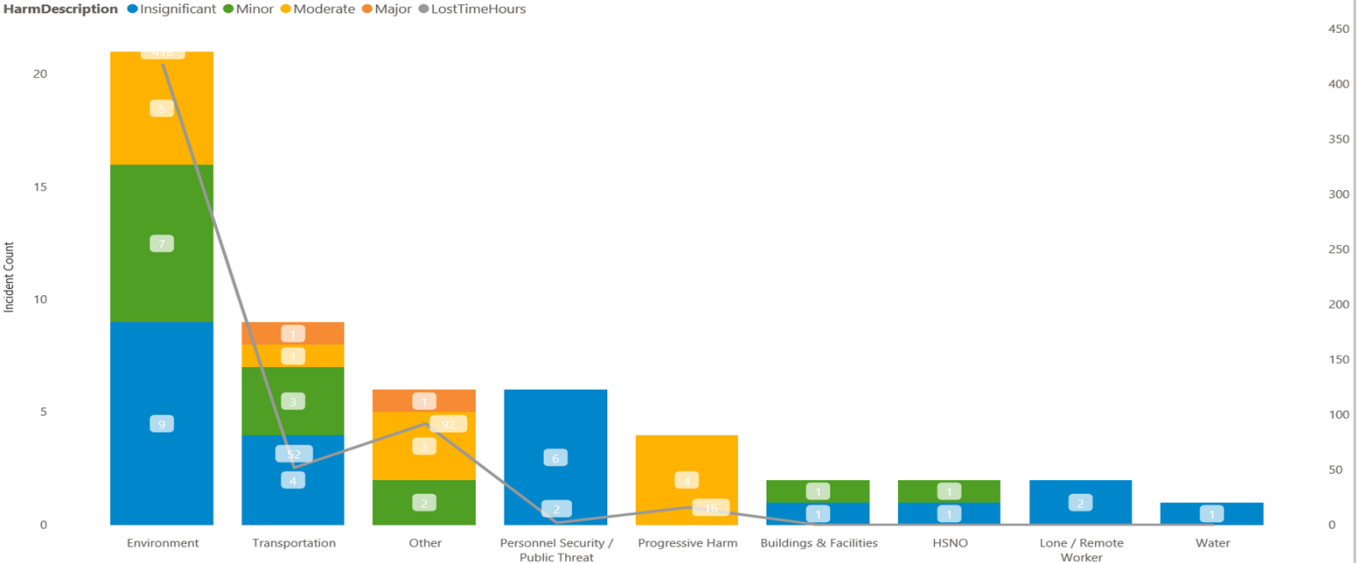
Incidents by Potential Harm



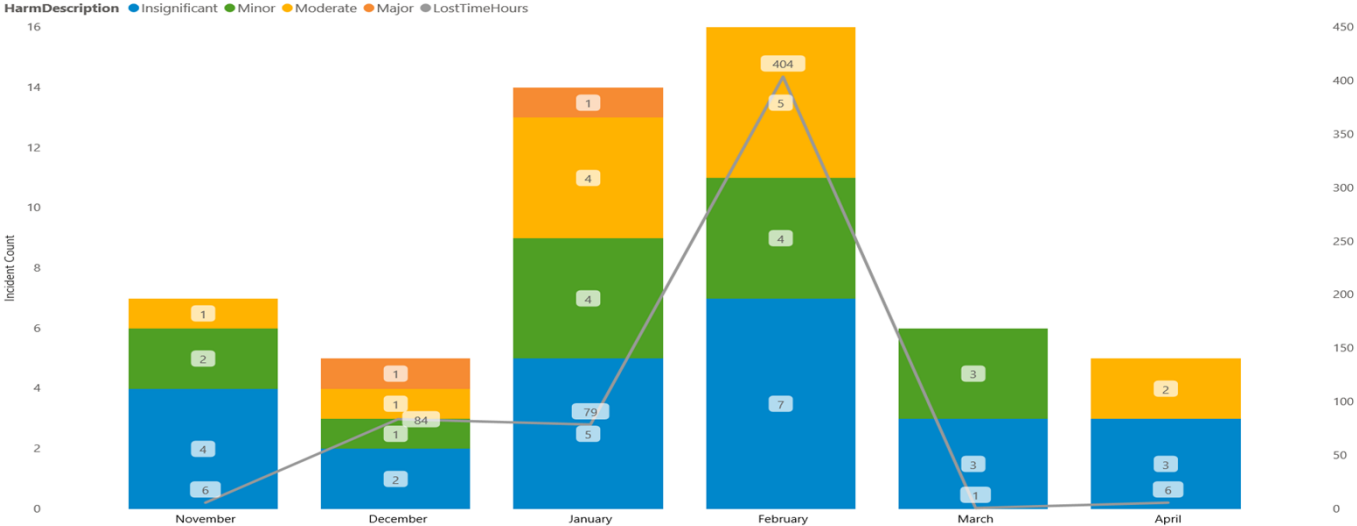
Potential harm refers the degree of injury that could have occurred if conditions had been slightly different (number of variables).

The importance of this data set is that it informs the business of how serious events could have been.

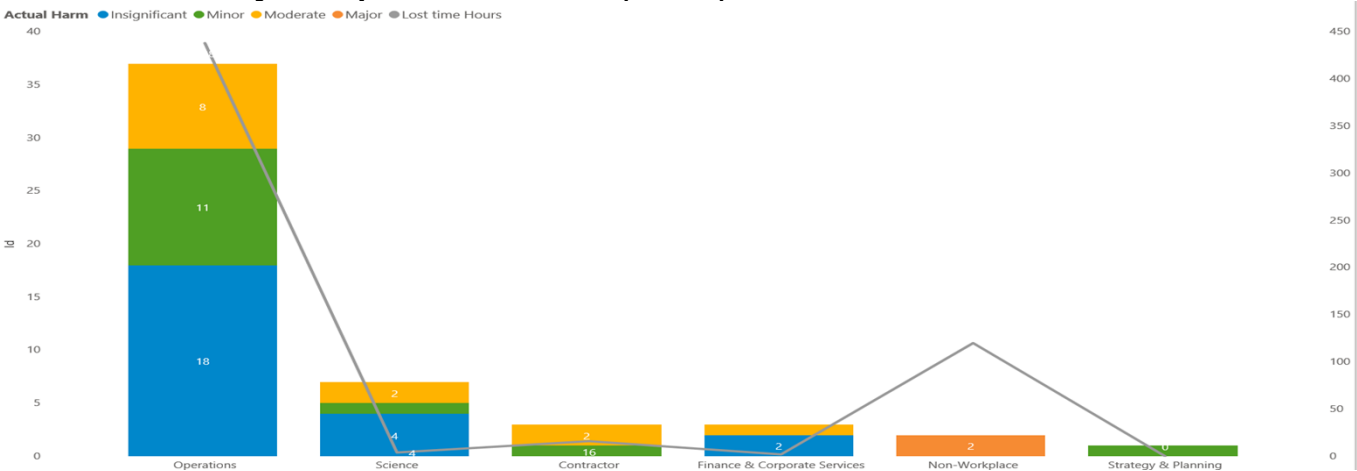
Incident Count by Risk Category with Lost Time (hours)



Incident Count by Month with Lost Time (hours)



Incident Count by Group with Lost Time (hours)



4.2. Risk Standing Report

Performance, Audit and Risk Committee (PARC) report

Date of meeting	28 May 2020
Author	Nicholas Hill

Purpose

1. This report is a standing item to update the Committee on Environment Canterbury's risk management programme and provide a forum for the Committee to raise concerns.

Recommendations

That the Performance, Audit and Risk Committee:

1. **Receive this report as an update on risk management activities.**
2. **Advise staff:**
 - 2.1. **that there are no issues requiring additional risk assurance, or**
 - 2.2. **specify issues that require risk assurance reports.**

Key points

2. Covid19 disruption has continued to dominate the risk landscape with support for personal and operational risk benefiting from active management.
3. Health and Safety risks shifted to having a focus on chronic harm from ergonomics due to working from home and disease prevention through development of standard operating procedures.

Update

4. Allied with the Risk Management programme is Internal Audit. We have focussed work on developing a longer-term plan that covers the next three years – this plan will be briefed for feedback and brought back to the Committee for approval at a later date.
5. A workshop is planned to brief Councillors on the risk management framework, review key risks and risk appetite. The organisational risk policy recommends that this occur before July.

Attachments

Nil

File reference	[SharePoint link for this paper]
Peer reviewers	[Names of two peer reviewers who have reviewed this paper]

5. Performance

5.1. Action List

Performance, Audit and Risk Committee (PARC) report

Date of meeting	Thursday, 28 May 2020
Author	Nicholas Hill, Risk and Improvement Manager
Endorsed by	Miles McConway, Director Finance & Corporate Services

Purpose

1. The purpose of this report is to record matters raised at the Performance, Audit and Risk Committee meetings that require substantial follow up actions and to provide delivery times and accountability.

Recommendations

That the Performance, Audit and Risk Committee:

1. receives the Action List

Action List

Status Key: Not started In progress Complete

No.	Action	Source	Responsibility	Status
1	<u>Finance</u> : Sensitive Expenditure report presentation and consider audience	PARC 28/11/2019	Catherine Schache	
2	<u>Audit</u> : Audit letter Actions:	PARC 26/03/2020		
	Strengthening procurement and contract management	Audit letter	Danette Wereta	
	Asset management system for flood protection assets	Audit letter	Leigh Griffiths	
	Useful lives of assets	Audit letter	Katherine Harbrow	
	Breach of interest rate risk management	Audit letter	Katherine Harbrow	
	Old MetroCard credits and expired balances	Audit letter	Jeremy Dickson	

5.2. Portfolio Financial Report April 2020

Performance, Audit and Risk Committee (PARC) report

Date of meeting	Thursday, 28 May 2020
Author	Tarsha Triplow Team Leader Corporate Reporting
Endorsed by	Katherine Harbrow Chief Financial Officer

Purpose

1. To report on portfolio financial performance for the period ended 30 April 2020.

Recommendations

That the Performance, Audit and Risk Committee:

1. **Receives the Portfolio Financial report for the period ended 30 April 2020.**

Background

2. The Performance, Audit and Risk Committee (PARC) Portfolio Financial Report includes financial performance information for the period ended 30 April 2020. Service delivery will be explained in the quarterly Portfolio Performance Report.

Overall Performance

3. As at 30 April 2020, we had an operating surplus of \$8.08M (million) compared to a budgeted deficit of \$1.07M, a favourable variance of \$9.14M.
4. The variance is a result of spending \$10.40M less than budget and receiving \$1.25M less revenue than budget. The lower expenditure is across all portfolio's, with Public Transport expenditure being the largest (\$8.27M). This is due to service delivery improvement delays that are awaiting funding approvals from NZTA. Freshwater Management (\$2.23M), and Regional Leadership (\$1.39M) are the other main ones and these are due to delays in the Plan Change 7 in the RMA Framework, delays to work programmes and lower consent applications respectively. This is partly offset by Biodiversity and Biosecurity (\$2.24M) above budget spend due to the National Wilding Conifer programme.
5. Revenue is lower than budget, primarily in Public Transport (\$6.68M) as noted above due to waiting for grant funding approval from NZTA for service delivery

improvements. Biodiversity and Biosecurity has additional revenue (\$4.13M) due to MfE grant revenue for the National Wilding Conifer programme.

Financial Performance

6. The performance of each portfolio is displayed in the attached report. The significant variances by Portfolio are:
- a. Biodiversity & Biosecurity - \$1.89M (million) better than budgeted deficit, due to \$4.13M more revenue and \$2.24M more expenditure. Additional revenue and expenditure both relate to the National Wilding Conifer Programme.
 - b. Regional Leadership – \$1.72M better than budgeted deficit, is due to less community engagement activities leading up to the local body elections and lower consent applications. Ngāi Tahu and Regional Relationships has received additional grant funding for the Canterbury Regional Economic Development Strategy programme.
 - c. Freshwater Management - \$2.06M better than budget due to lower expenditure in the RMA Water Framework it is likely this will now continue into year end. The remaining lower expenditure is due to vacancies and delays to work programmes that are now nearly back on track.
 - d. Hazards, Risk and Resilience - \$0.97M better than budget due to additional revenue of \$1.03M due to a number of factors including delayed forestry income from last year and gravel authorisations and bulldozing work. Expenditure is slightly over budget by (\$0.06M) which is small variances spread across all programmes apart from a larger variance in Flood Protection of \$0.32M relating to Rangitata river recovery.
 - e. Public Transport - \$1.59M better than budget due to lower revenue and expenditure across the programmes. The most significant variable contributing to this is the bus contract payments.

Attachments

1. Portfolio Financial Report year to date 30 April 2020

File reference	[SharePoint link for this paper]
Peer reviewers	Miles McConway, Finance & Corporate Services

Reporting Period

7/1/2019 4/30/2020

Previous Period (YTD)

Category	Revenue \$	Expenditure \$	Surplus/Deficit \$
Actual	140.09M	132.78M	7.31M
Budget	140.42M	141.28M	-0.86M
Variance	-0.33M	-8.50M	8.17M
% Var	-0.24%	-6.02%	
Forecast	139.55M	133.03M	6.52M
Variance	0.53M	-0.26M	0.79M

Current Period (YTD)

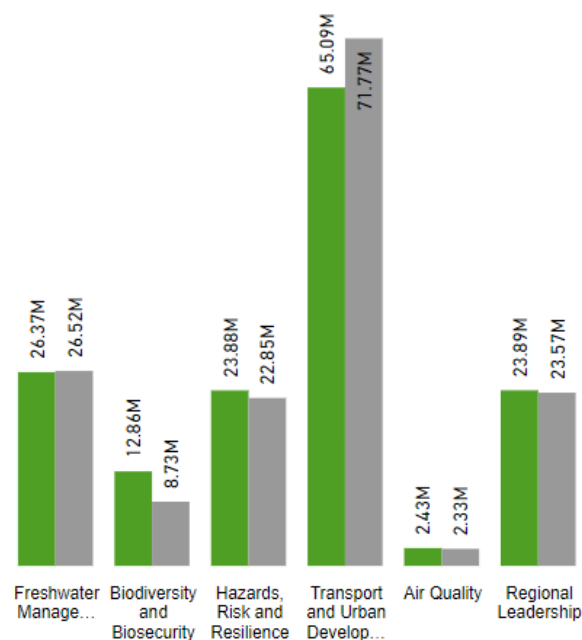
Category	Revenue \$	Expenditure \$	Surplus/Deficit \$
Actual	154.51M	146.44M	8.08M
Budget	155.77M	156.83M	-1.07M
Variance	-1.25M	-10.40M	9.14M
% Var	-0.80%	-6.63%	
Forecast	154.62M	149.41M	5.21M
Variance	-0.11M	-2.97M	2.86M

Current Month Movement

Category	Revenue \$	Expenditure \$	Surplus/Deficit \$
Actual	14.43M	13.66M	0.77M
Budget	15.35M	15.56M	-0.21M
Variance	-0.92M	-1.90M	0.98M
% Var	-5.99%	-12.19%	
Forecast	15.07M	16.37M	-1.30M
Variance	-0.64M	-2.71M	2.07M

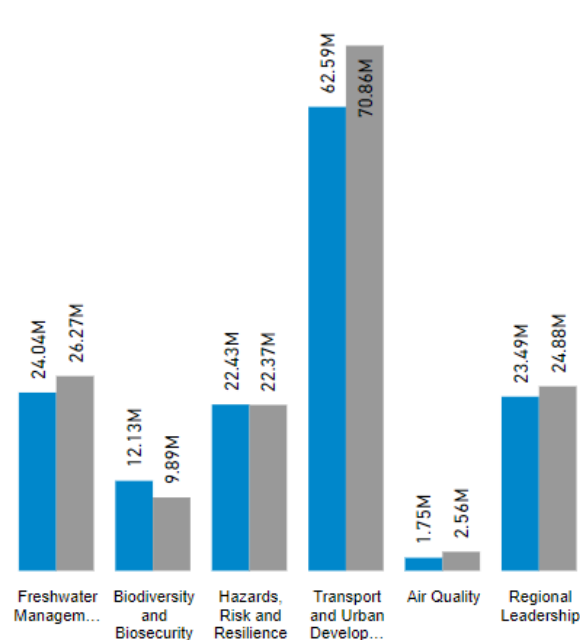
Revenue

● YTD Actual ● YTD Budget



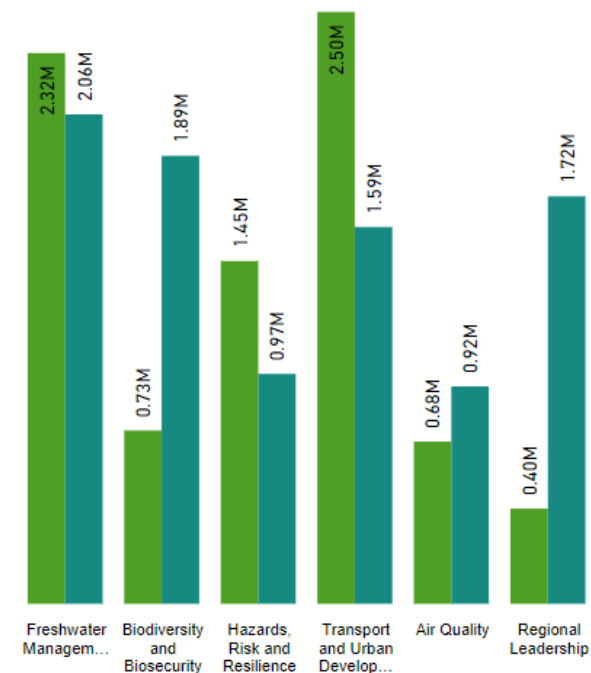
Expenditure

● YTD Actual ● YTD Budget



Surplus/Deficit

● YTD Actual ● YTD Variance to Budget



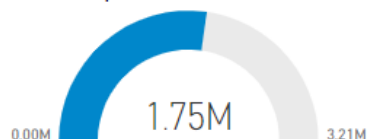
Reporting Period

7/1/2019

4/30/2020

Air Quality

YTD Actual Expenditure vs Full Year Budget



54.47%

YTD Actual/Full Year Budget %

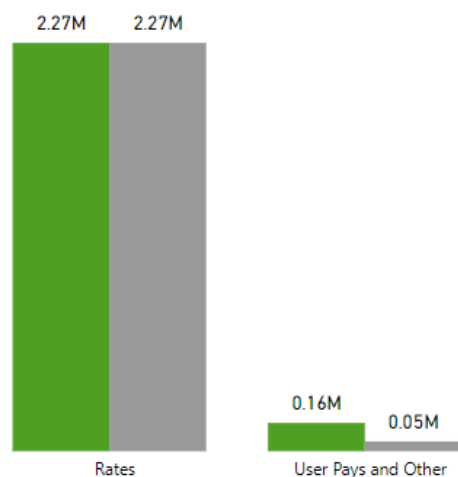
Category	Actual \$	Budget \$	Variance \$	% Var	Forecast \$	Variance \$
Revenue	2.43M	2.33M	0.10M	4.41%	2.43M	0.00M
Expenditure	1.75M	2.56M	-0.81M	-31.78%	1.93M	-0.18M
Surplus/Deficit	0.68M	-0.23M	0.92M		0.50M	0.18M

Revenue

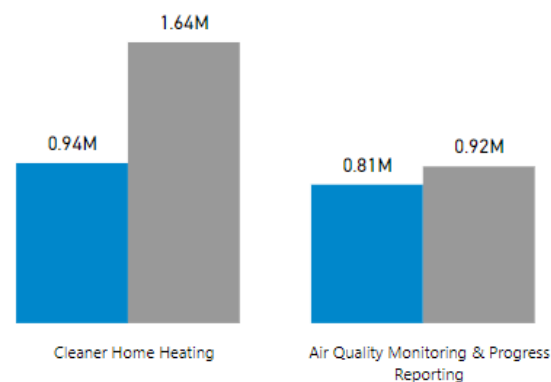
Expenditure

Cantabrians are installing fewer subsidised burners than we predicted which is resulting in budget underspend against the Cleaner Home Heating programme. We are therefore reviewing the design of our financial assistance scheme to better align with our objective of supporting Cantabrians with limited means to transition to cleaner forms of home heating, while efficiently using the reserves which fund the scheme. There was also a reduction in costs for the 2019 winter campaign and unspent funds for the upcoming 2020 winter campaign. Covid-19 has limited the ability to spend G&S budget in some areas. The Portfolio is forecasting an underspend at year end, a significant portion of which relates to the financial assistance scheme.

● YTD Actual Revenue ● YTD Budget Revenue



● YTD Actual Expenditure ● YTD Budget Expenditure

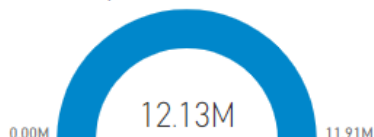


Reporting Period

7/1/2019 4/30/2020

Biodiversity and Biosecurity

YTD Actual Expenditure vs Full Year Budget



101.90%

YTD Actual/Full Year Budget %

Category	Actual \$	Budget \$	Variance \$	% Var	Forecast \$	Variance \$
Revenue	12.86M	8.73M	4.13M	47.35%	12.68M	0.18M
Expenditure	12.13M	9.89M	2.24M	22.70%	12.53M	-0.40M
Surplus/Deficit	0.73M	-1.16M	1.89M		0.15M	0.58M

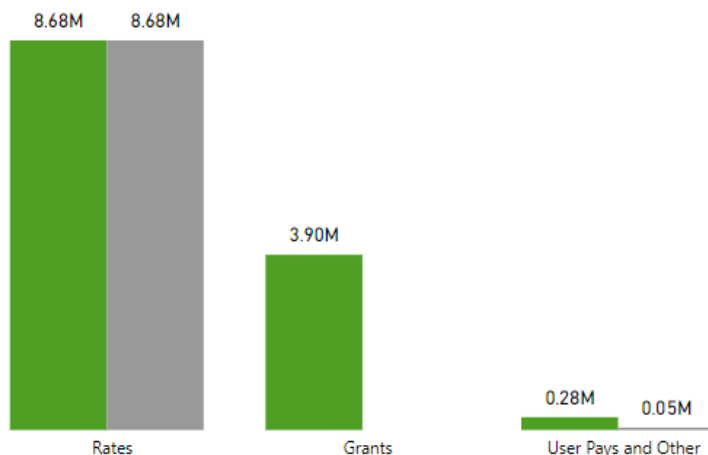
Revenue

Grant revenue will remain over budget due to external funding from the Ministry for Primary Industries (MPI) for the National Wilding Conifer Control Programme. Additional funding was made available in April and will be released in line with spending.

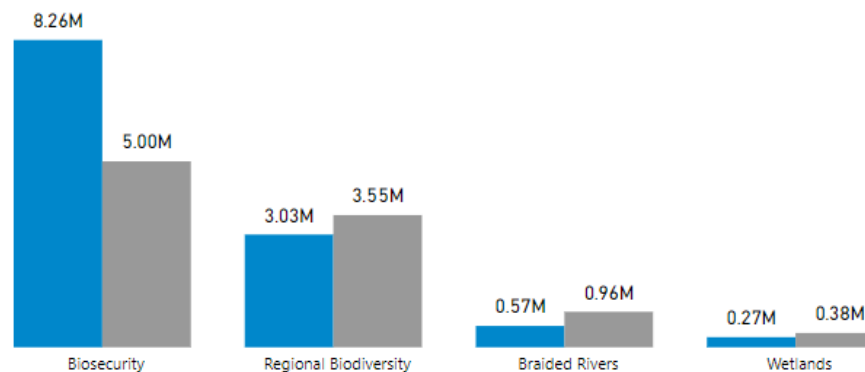
Expenditure

Biosecurity expenditure is greater than budget, due to the fully-funded MPI Wilding Conifer programme. Almost all programmes have been impacted by COVID-19 restrictions and while plans are in place to recommence work, each programme is forecasting an underspend at year end. Notably the Braided River expenditure is lower due to an inability to consult on plans during lock-down, which puts the Level of Service at risk for 2019/20. The Biodiversity on ECan land project is delayed and under review. The Pest Free Banks Peninsula programme is managing delays in establishing the programme structure within the Banks Peninsula Community Trust.

● YTD Actual Revenue ● YTD Budget Revenue



● YTD Actual Expenditure ● YTD Budget Expenditure



Reporting Period

7/1/2019

4/30/2020

Freshwater Management

YTD Actual Expenditure vs Full Year Budget



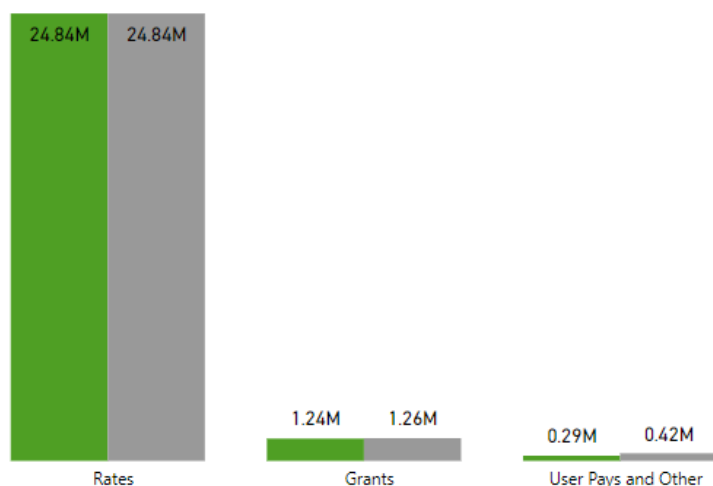
75.04%

YTD Actual/Full Year Budget %

Category	Actual \$	Budget \$	Variance \$	% Var	Forecast \$	Variance \$
Revenue	26.37M	26.52M	-0.16M	-0.59%	26.10M	0.27M
Expenditure	24.04M	26.27M	-2.22M	-8.46%	25.09M	-1.04M
Surplus/Deficit	2.32M	0.26M	2.06M		1.01M	1.31M

Revenue

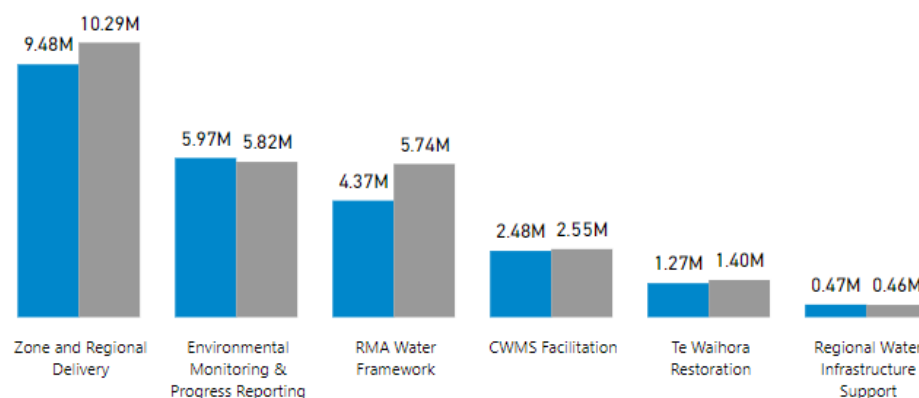
● YTD Actual Revenue ● YTD Budget Revenue



Expenditure

Portfolio expenditure under spend is occurring primarily in two Programmes: RMA Water Framework (-\$1.35M) due to the timing of expenditure related to Plan Change 7 (PC7). Due to COVID-19 the hearing has now been postponed and no new date will be scheduled until changes in the current emergency environment. Despite some redirection of funds to support 2023 plan notification an underspend is expected. Zone and Regional Delivery programme is underspent (-800k) in part through continued resourcing delays in ground water science which are further delayed by COVID-19. The remainder comes from smaller variances across a wide range of zone based projects under the Zone and Regional Delivery programme with particular impact on field work by COVID-19 and an underspend is expected at year end. COVID-19 impacts on field work have also led to an expected small underspend in the Whakaora Te Waihora programme.

● YTD Actual Expenditure ● YTD Budget Expenditure



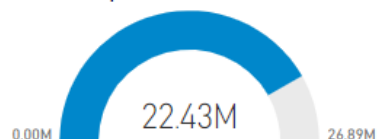
Reporting Period

7/1/2019

4/30/2020

Hazards, Risk and Resilience

YTD Actual Expenditure vs Full Year Budget



83.42%

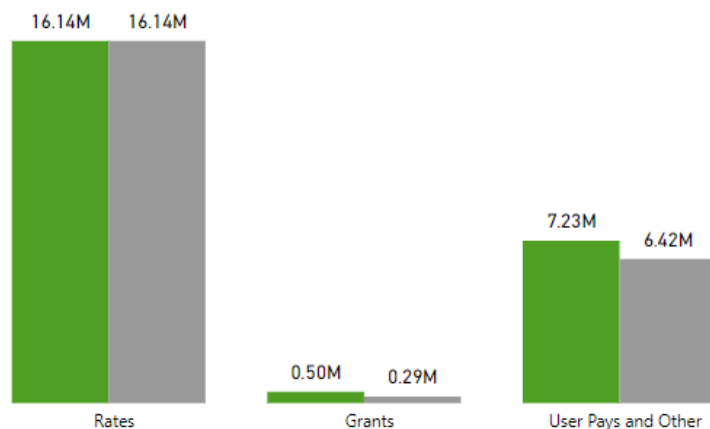
YTD Actual/Full Year Budget %

Category	Actual \$	Budget \$	Variance \$	% Var	Forecast \$	Variance \$
Revenue	23.88M	22.85M	1.03M	4.49%	24.19M	-0.32M
Expenditure	22.43M	22.37M	0.06M	0.25%	22.82M	-0.39M
Surplus/Deficit	1.45M	0.48M	0.97M		1.37M	0.07M

Revenue

Grant Revenue is greater than budget in the Contaminated Land Hazardous Substances and Waste programme, related to the fully funded Ministry for the Environment grant for the Concours program of work. User Pays and Other is over budget due to a higher number of cruise ships than were budgeted for and delayed revenue from the 18/19 forestry harvest.

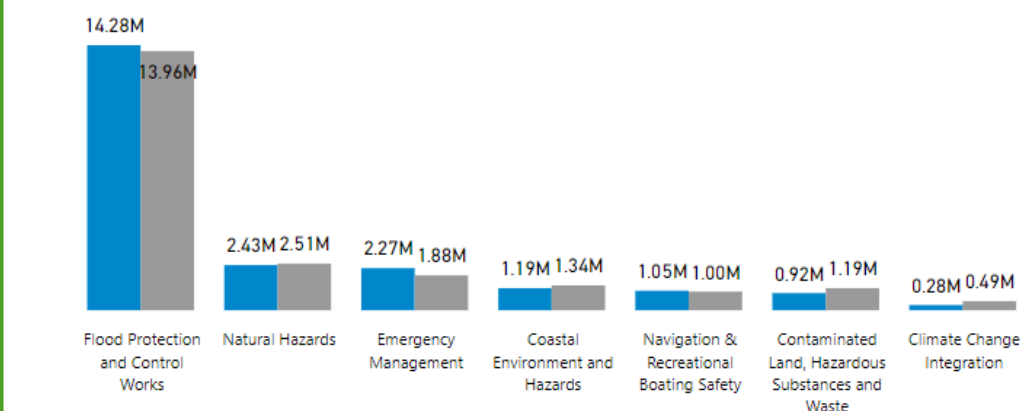
● YTD Actual Revenue ● YTD Budget Revenue



Expenditure

Emergency Management programme is over budget due to the Emergency Coordination Centre being activated for both the Rangitata flood event and the Covid-19 response. There will be increased good and services costs over the next few months, with some reimbursement expected from National Emergency Management Agency. Flood protection programme expects to remain on budget overall at year end with Flood alerts and Rangitata cost centres likely remaining over budget. Flood protection expenditure was significantly reduced for April due to Covid 19 lockdown, with works now steadily increasing around the region. Some work may be deferred to 20/21 depending on weather conditions. Contaminated Land, Hazardous Substances and Waste is under budget due to lower labour and overheads, new resources will be focussed in this programme over the final quarter and expect to finish the year close to budget. Coastal Environment and Hazards expense for sea level recorders and a hazard assessment will be received in May

● YTD Actual Expenditure ● YTD Budget Expenditure

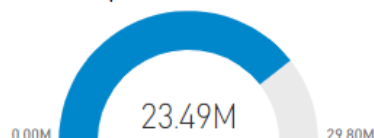


Reporting Period

7/1/2019 4/30/2020

Regional Leadership

YTD Actual Expenditure vs Full Year Budget



78.81%

YTD Actual/Full Year Budget %

Category	Actual \$	Budget \$	Variance \$	% Var	Forecast \$	Variance \$
Revenue	23.89M	23.57M	0.32M	1.37%	23.88M	0.01M
Expenditure	23.49M	24.88M	-1.39M	-5.60%	23.61M	-0.12M
Surplus/Deficit	0.40M	-1.32M	1.72M		0.27M	0.13M

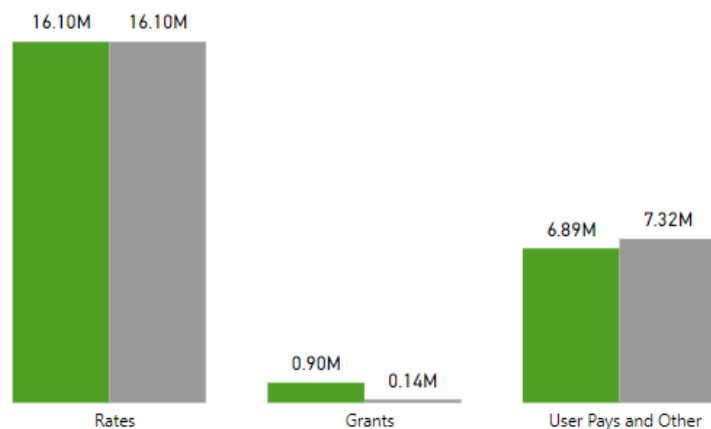
Revenue

Revenue includes additional Grants from Canterbury Regional Economic Development Strategy, additional User Pays revenues from infringement notices and reduced User Pays revenue from less resource consent work.

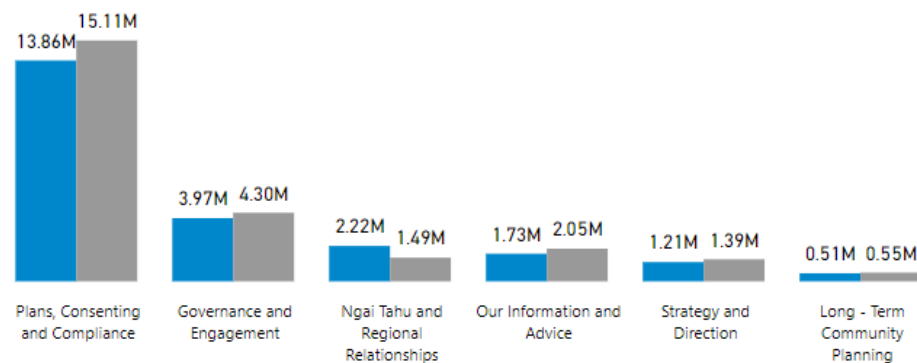
Expenditure

Planning, Consenting and Compliance expenses are under budget due to a lower amount of time being spent on consents advisory due to a focus on improving cost recovery. Changes to the Fees and Charges policy to rectify under-recovery of consents are delayed and the special consultative process will commence in July 2020. Engagement activities with youth and community groups are on hold and Information and Advice activities have also reduced due to COVID restrictions. The Ngai Tahu and Regional Relationships programme remains over budget due to additional expenditure on Canterbury Regional Economic Development Strategy projects which is offset by grant revenue received from the Ministry of Business, Innovation and Employment.

● YTD Actual Revenue ● YTD Budget Revenue



● YTD Actual Expenditure ● YTD Budget Expenditure



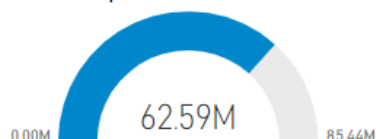
Reporting Period

7/1/2019

4/30/2020

Transport and Urban Development

YTD Actual Expenditure vs Full Year Budget



73.26%

YTD Actual/Full Year Budget %

Category	Actual \$	Budget \$	Variance \$	% Var	Forecast \$	Variance \$
Revenue	65.09M	71.77M	-6.68M	-9.31%	65.33M	-0.25M
Expenditure	62.59M	70.86M	-8.27M	-11.67%	63.43M	-0.84M
Surplus/Deficit	2.50M	0.91M	1.59M		1.90M	0.59M

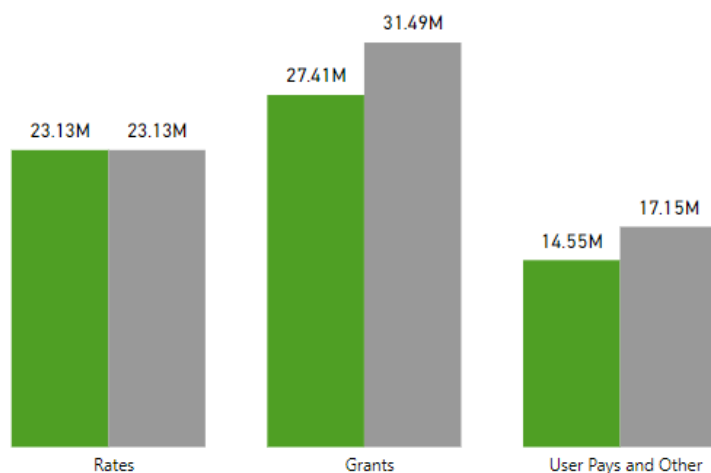
Revenue

Revenue is currently under budget primarily as a result of lower than budgeted grant claims from NZTA, aligned with the under budget expenditure year to date across the same key areas of Bus Contracts (\$3.2m), IT services (\$1.6m) and Infrastructure claims (\$688k). Total Mobility revenue is over budget by \$54k reflecting a higher grant claim from NZTA responding to increased usage. COVID 19 has seen a sharp reduction in public transport usage and thus fare revenue, however this reduction in fare revenue is being underwritten by NZTA for this financial year.

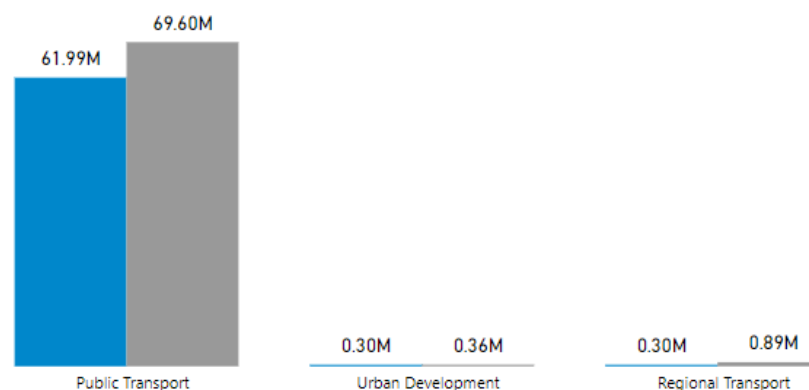
Expenditure

Key contributors to underspend year to date remain consistent. Public Transport expenditure is under budget year to date by \$8.2m. The most significant driver of this is bus contract payments which are \$4.4m under budget. The three areas impacting bus contract payments are the Service Improvement Project which has been delayed, (NZTA approved a reduced funding amount in December 2019 and work has been underway to finalise what could be delivered within this reduced funding envelope). Employment Relations Act changes are still to be finalised and this may impact numbers in the final quarter. The NZTA index which is lower than what was budgeted. Other expenditure impacts are technology costs being under budget by \$896k due to capital project timing which operationally affects depreciation. CCC Infrastructure funding allocation is \$688k under budget due to a lower claim rate than anticipated this year.

● YTD Actual Revenue ● YTD Budget Revenue



● YTD Actual Expenditure ● YTD Budget Expenditure



5.3. Financial Health Reports April 2020

Performance, Audit and Risk Committee (PARC) report

Date of meeting	Thursday, 28 May 2020
Author	Tarsha Triplow, Team Leader Corporate Reporting
Endorsed by	Katherine Harbrow, Chief Financial Officer

Purpose

1. To report on the financial results for the period ended 30 April 2020.

Recommendations

That the Performance, Audit and Risk Committee:

1. **receives the monthly Financial Health report for the period ended 30 April 2020.**
2. **notes the table of Council approved unbudgeted expenditure listed in this report.**

Background

2. Monthly financial results are reported to the Performance, Audit and Risk Committee as part of our prudent financial management responsibilities.
3. The financial results for the period ended 30 April 2020 have been prepared and are now presented to the Performance, Audit and Risk Committee for review.

Financial Performance

Surplus/Deficit

4. As at 30 April, we had an operating surplus of \$8.08M compared to a budgeted deficit of \$1.07M, a variance of \$9.14M.
5. The variance is a result of spending \$10.40M less than budget and receiving \$1.25M less revenue than budget.

Revenue

6. Rates revenue is on budget at \$91.16M year to date. User pays and other revenue \$29.40M is below budget by \$2.02M due to lower consent processing and lower bus fare patronage. Grants revenue is over budget (\$0.76M) with a number of variables, the two largest being Public Transport which is under budget due to delayed funding by NZTA, and Biodiversity and Biosecurity are above due to the National Wilding Conifer Programme.

Expenditure

7. Goods and services are under budget by \$7.25M, Public Transport and Freshwater Management are the primary contributors and largely in Contractors and Consultancy. This is partly offset by Biodiversity and Biosecurity being over budget.
8. Overheads are under budget by \$0.77M, due to overheads being largely driven by labour which is also under budget.
9. Labour is \$2.37M under budget due to staff changes and vacancies.

Cashflow, Debtors and Debt

Treasury Performance

10. Total cash at bank (including investments) was \$33.5M as at 30 April 2020 and includes a balance on Metrocards of \$3.2M. ECan's cash balance is therefore \$30.3M compared to a policy of \$12.8M. The higher level of cash and short-term investment includes the additional \$16.0M of borrowing from LGFA drawn down in September 2019; these funds are invested in term deposits until required for capital expenditure.
11. The total debtors balance is \$4.1M with \$3.1M of that being current.
12. Capital works are 44% below budget (\$6.23M) which relates mostly to the Kainga depot, Real Time Information Systems and Water Data.

Council approved unbudgeted expenditure

Council Meeting	Item	Project Type/Name	Portfolio	Amount (GST) exclusive
11 July 2019 (Public excluded)	Remediation – asbestos contamination – 568 Johns Road	Operating: Land Within WEC Catchment District (P070502)	Hazards, Risk & Resilience	
29 August 2019 (Public excluded)	Timaru On-Demand Public Transport Project	Operating: PT Demand Responsive	Public Transport	\$234,145

		Transport Pilots (P048740)		
29 August 2019 (Public Excluded)	Kainga Depot Development funding – increased in funding to \$7.5m and change from \$2M debt funding and \$5M Kainga Reserve funding to fully debt funded	Capital: Kainga Office – Capital Work (P210007)	Asset Services	\$500,000 (additional capital)
12 December 2019	Transfer of funds from Energy Efficiency Reserve for provision of subsidy support for Waimate and Geraldine communities (and the subsequent closing of the reserve account)	Energy Efficiency Reserve	Air Quality	\$159,993
16 April 2020	Rangitata Flood Event – overspend – funding transferred from general reserve	Flood protection	Hazards, Risk & Resilience	\$150,000

Attachments

1. FH BI Report Apr 20 [5.3.1 - 5 pages]

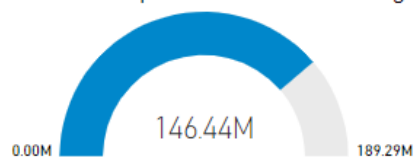
Peer reviewers	Mark Smith, Team Leader Business Partnership Nicholas Hill, Risk and Improvement Manager Miles McConway, Director Finance & Corporate Services
-----------------------	--

7/1/2019

4/30/2020

FINANCIAL HEALTH REPORT

YTD Actual Expenditure Vs Full Year Budget



77.36%

YTD Actual/Full Year Budget %

Category	Actual \$	Budget \$	Variance \$	% Var	Forecast \$	Variance \$
Revenue	154.51M	155.77M	-1.25M	-0.80%	154.62M	-0.11M
Expenditure	146.44M	156.83M	-10.40M	-6.63%	149.41M	-2.97M
Surplus/Deficit	8.08M	-1.07M	9.14M		5.21M	2.86M

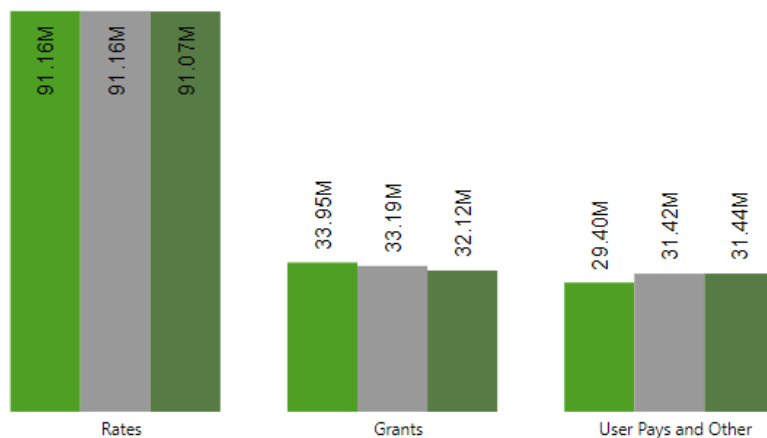
Revenue

Grants are over budget due to additional funding for the Canterbury Regional Economic Development Strategy in Regional Leadership, the Concours programme in Hazards, Risk and Resilience and the Wilding Conifer programme in Biodiversity and Biosecurity. This is partially offset by the lower grant funding in the Public Transport delayed projects. User Pays and Other are under budget due to lower consent fees and lower fare revenue in Public Transport.

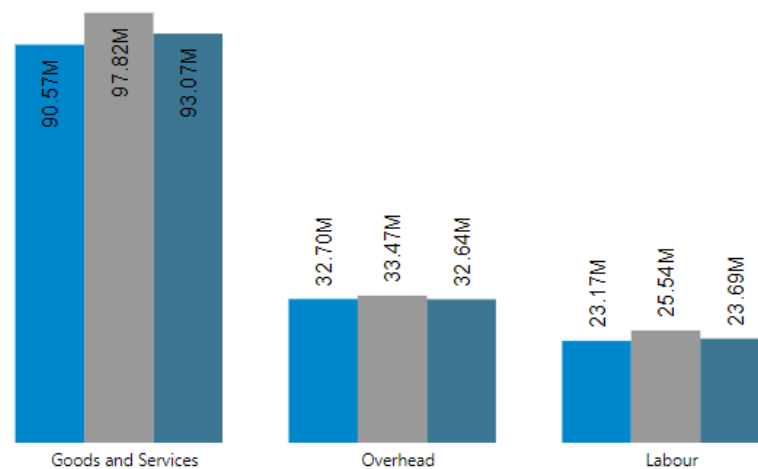
Expenditure

Goods and Services expenditure is under budget mostly in Consultancy and Contractors in Public Transport due to the delayed NZTA projects, and in Freshwater Management relating to delays in the RMA Water Framework and Whakaraupo programmes. Labour is below budget due to vacancies across the portfolios. Lower overhead costs reflect the lower labour costs.

● YTD Actual Revenue ● YTD Budget Revenue ● YTD Forecast Revenue



● YTD Actual Expenditure ● YTD Budget Expenditure ● YTD Forecast Expenditure



Cash and Bank

as at 4/30/2020

33.5M

Cash

2.2M

Metrocard

3.2M

Investment

28.1M

Investment Details (\$000)

\$	Maturity	Days	Rate
1000	12/05/2020	263	2.76%
1200	6/07/2020	182	2.83%
900	6/07/2020	215	2.85%
1300	20/07/2020	241	2.84%
6000	28/07/2020	90	1.50%
500	28/07/2020	182	2.81%
6000	26/10/2020	181	2.12%
600	14/12/2020	241	2.50%

Total Actual Cash & Bank

33.5M

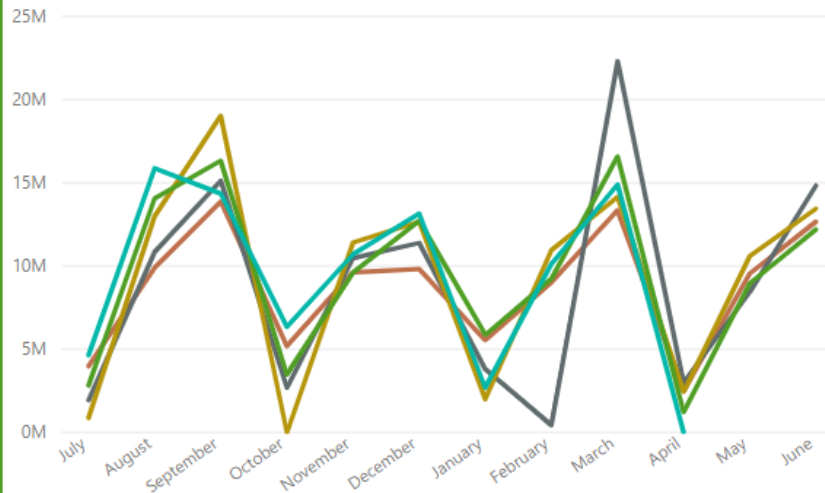
Cash Reserve Policy: : 12.8M

Financial Position

Cash and Bank	33.49M
Other Current Asset	21.34M
Non Current Asset	966.55M
Current Liabilities	-15.90M
Non Current Liabilities	-55.29M
Net Assets	950.19M

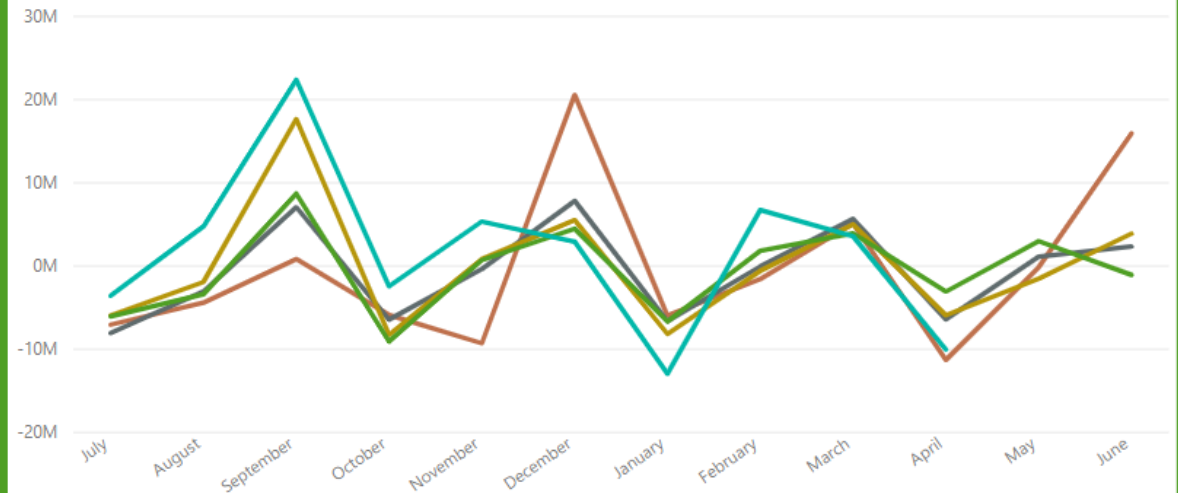
Rates Revenue Tracking Against Previous Years

Financial Year ● 2016 ● 2017 ● 2018 ● 2019 ● 2020



Cash and Bank Balance Tracking Against Previous Years

Financial Year ● 2016 ● 2017 ● 2018 ● 2019 ● 2020



Total Outstanding Debts (Excluding Rates)

Period Ending : 4/30/2020

4,089,453

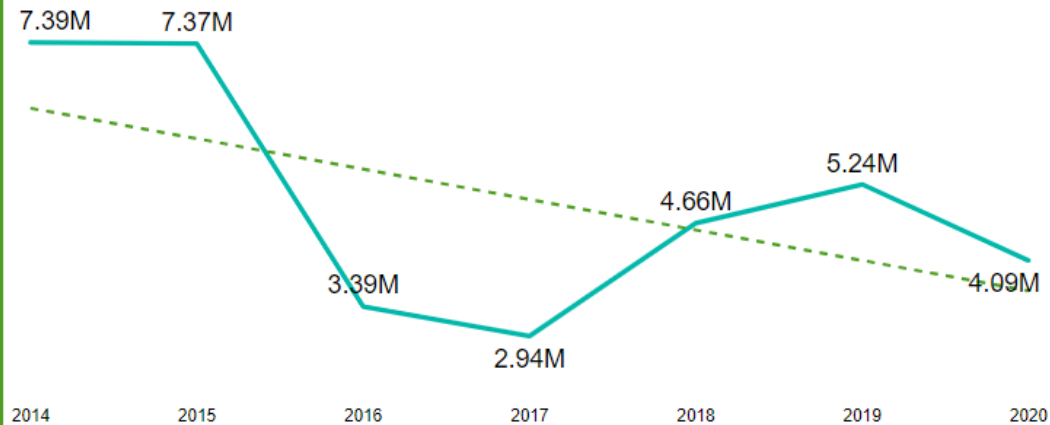


OVER 90 DAYS DEBT MANAGEMENT

Total	Reminder	Payment Arrangement	Objection/ Query	Collection Agency	Others*
0.23M	0.02M	0.00M	0.08M	0.07M	0.07M

*Others includes Debt recovery, Liens, Court Action/Infringements

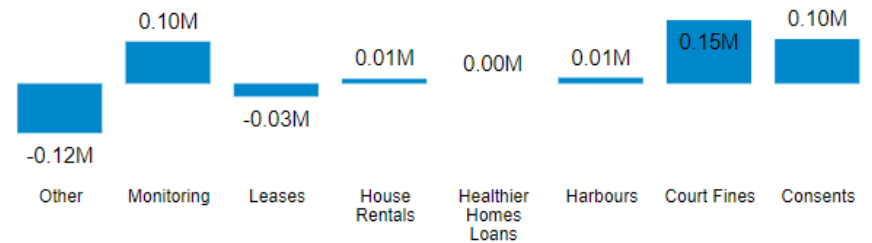
Amount by Year (Excluding Rates)



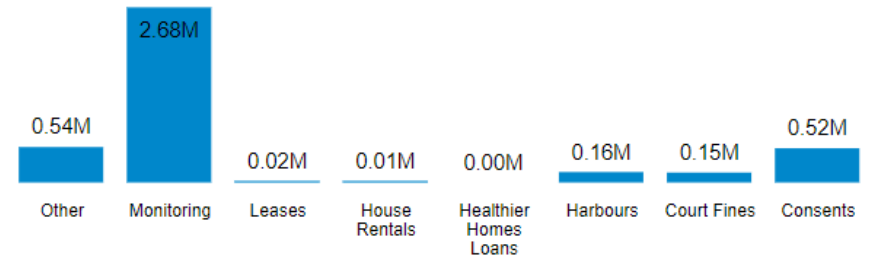
Notes

\$3.14M of the \$4.09M debt is current. Only \$0.23M is over 90 days, which is at different stages of debt management as shown above.

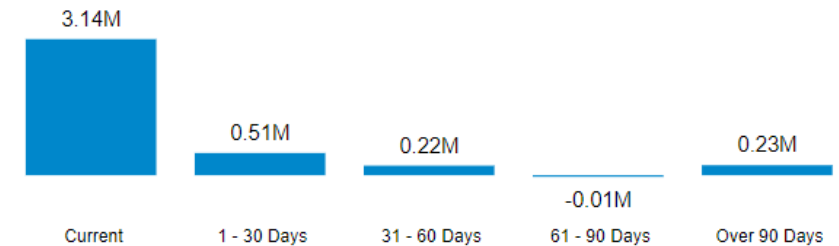
Over 90 Days Debts by Revenue Stream (Excluding Rates)



Total Debts by Revenue Stream (Excluding Rates)



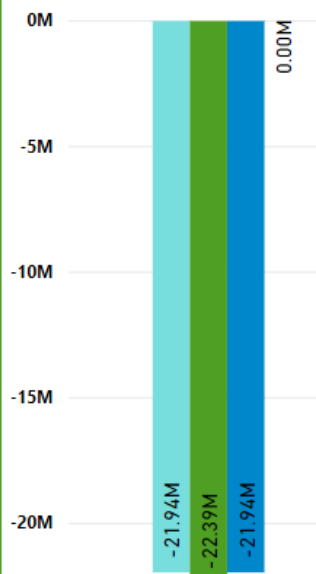
Amount by Aging (Excluding Rates)



as at 4/30/2020

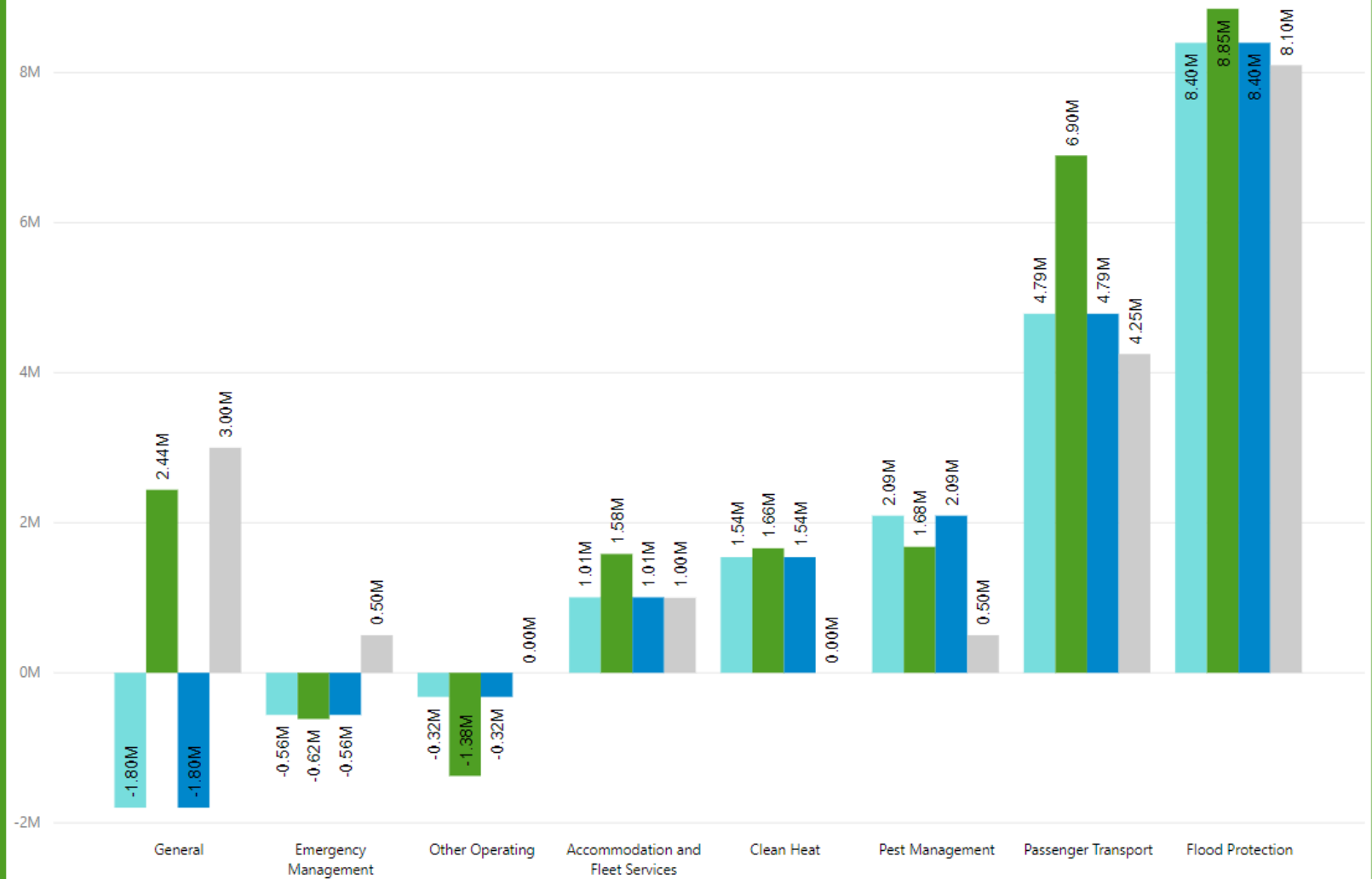
Waimakariri Flood Protection reserve Balance (Debt Funded)

Open YTD Bud FY Policy



Major reserve Balances

Balance Opening Balance Actual YTD Balance Budgeted Whole FY Reserves Policy



as at 4/30/2020

7.91M!

Full Year Approved: 24.04M (-67.1%)

YTD Approved: 14.14M (-44.08%)

Notes:

Forecast Full Year Capital Spend: \$9.02M

Capital expenditure is \$6.2M less than anticipated for the year.

Catchment expenditure is higher than expected due to final costs on Waimakariri Eyre Cust Stopbank.

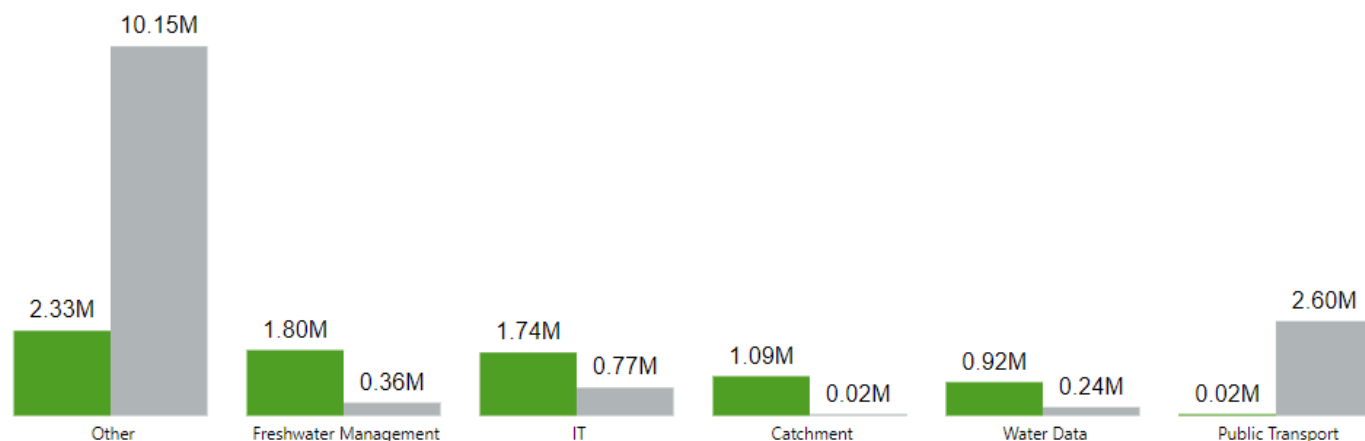
Vehicle Replacement is currently behind budget, by year end we are expecting this to be behind by \$289k. These funds will be redirected to the Tuam St Space Optimisation project.

Real Time Information System is in final stages of the Request for Proposal. This year's budget will be carried over to 2021.

Kainga Depot is currently waiting for consent, once completed the Request for Proposal will commence.

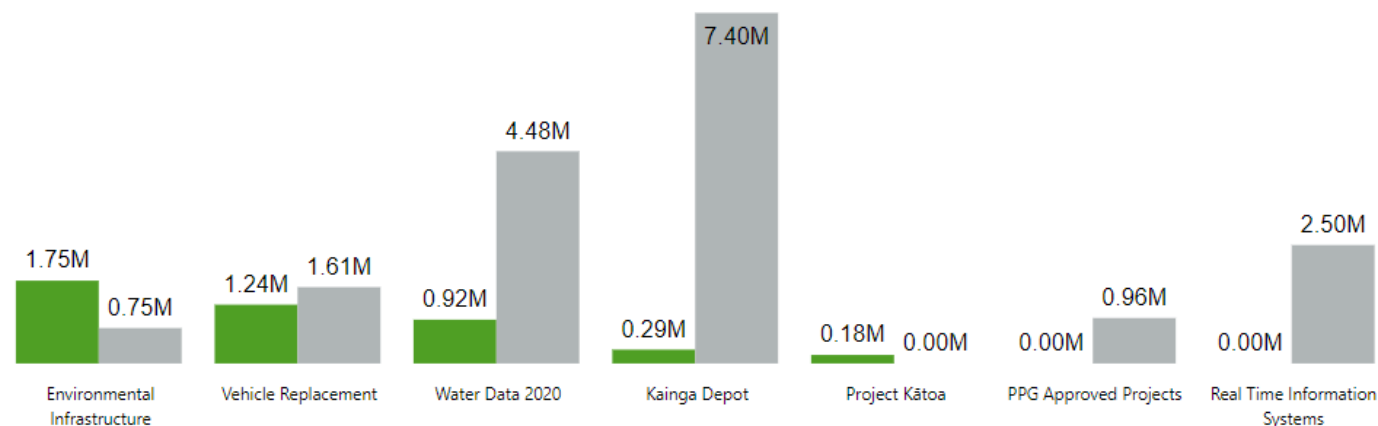
Capital Expenditure (including work in progress)

● YTD Actual ● YTD Approved



Significant Projects - Capital Expenditure (including work in progress)

● YTD Actual ● Full Year Approved



5.4. Public Transport Financial Performance Update

Performance, Audit and Risk Committee (PARC) report

Date of meeting	28 May 2020
Author	Stewart Gibbon Senior Manager, Pubic Transport
Endorsed by	Nadeine Dommissie Chief Operating Officer

Purpose

1. To provide an update on the financial performance of Public Transport

Recommendations

That the Performance, Audit and Risk Committee:

1. Receives the financial update on Public Transport

Attachments

Public Transport financial update

Public Transport Financial Update April 2020

Background

The following analysis is based on financial results for the ten-month period from 1 July 2019 to 30 April 2020. Monthly activity and risks are outlined at the end of the report.

Financial Results

The table below provides details of expenditure levels for the ten months beginning 1 July 2019 to April 2020 and also the various funding sources. The financial result is also compared to the 2019/20 Annual Plan budget.

\$000	Year to Date			
FUNDING OF SERVICES - REVENUE	Act	Bud	Var	%
Rates	21,369,381	21,369,381	0	0%
Grants	27,264,845	28,097,636	(832,791)	-3%
User pays and other	14,513,244	17,120,679	(2,607,435)	-15%
Revenue (excluding TEFAR projects)	63,147,470	66,587,696	(3,440,226)	-5%
Revenue (TEFAR projects)	978,593	3,914,371	(2,935,778)	-75%
Total Revenue	64,126,062	70,502,067	(6,376,004)	-9%
DELIVERY OF SERVICES - EXPENDITURE	Act	Bud	Var	%
Expenditure (excluding TEFAR projects)	61,993,617	65,690,476	(3,696,859)	-6%
Expenditure (TEFAR projects)	0	3,914,371	(3,914,371)	-100%
Total Expenditure	61,993,617	69,604,847	(7,611,229)	-11%
Reserve Accumulation / (Use)	Act	Bud	Var	
Surplus / (Deficit) (excluding TEFAR projects)	1,153,852	897,220	256,632	
Surplus / (Deficit) (TEFAR projects)	978,593	0	978,593	
Total Surplus / (Deficit)	2,132,445	897,220	1,235,225	

Expenditure is under budget year to date by \$7.6m. The most significant driver of this is bus contract payments which are \$4.4m under budget. This has been due to delays in funding approval from NZTA for service changes, delays in ERA changes due to national discussions to develop a common interpretation of how to apply the legislation and NZTA indexing being lower than forecast.

Technology costs are under budget by \$896k due to capital project timing impacting on depreciation, also budgets for some innovation projects will be carried over to 2020/21.

CCC Infrastructure funding allocation is \$689k under budget due to a lower claim rate so far this year.

Planning & Strategy is underspent by \$717k. With the Future PT Business Case work now underway, expenditure will increase in the next few months. The Travel Demand Management

Performance, Audit and Risk Committee 2018-04-26

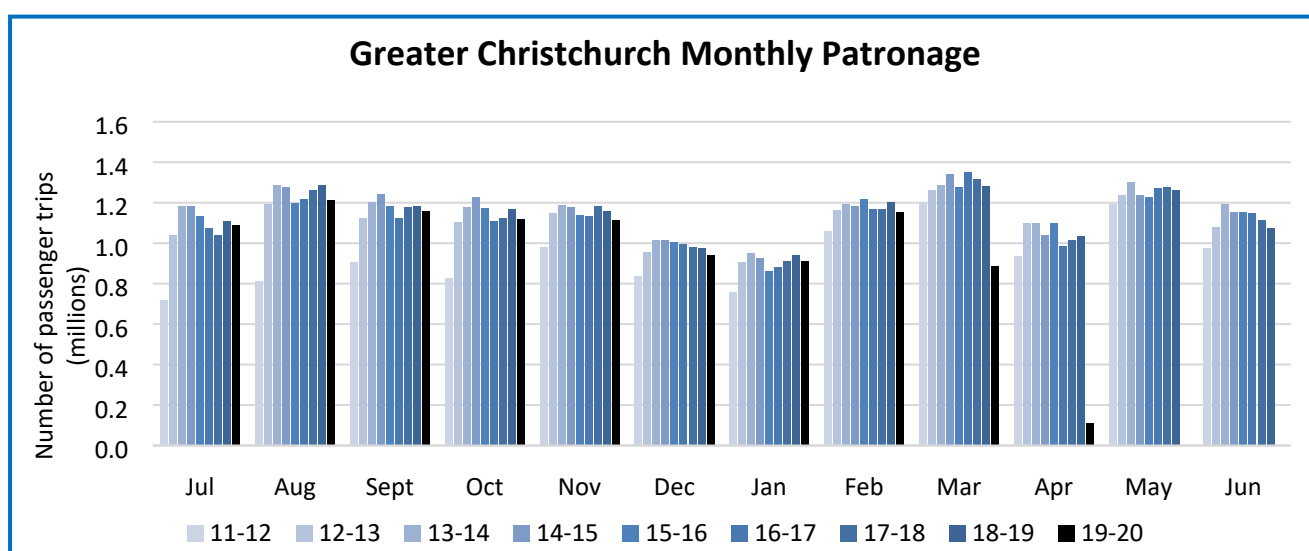
project for the partnership valued at \$560k will not be proceeding due to no funding from NZTA.

Revenue is currently under budget by \$6.4m, primarily as a result of lower than budgeted grant claims from NZTA, aligned with the under-budget expenditure year to date across the key public transport areas of Bus Contracts, IT projects, Infrastructure claims and Planning & Strategy.

Fare revenue is under budget, patronage continues to track lower than last year driven by reduced transfers as a result of land use changes. Fare revenue loss associated with the Covid-19 crisis will be funded 100% from NZTA (23 March to 30 June 20).

Monthly Activity

Patronage – Fiscal year to Date



GREATER CHRISTCHURCH	April 2020	Y-T-D	Prev Yr. Comparison
Patronage	111,776 (-89.2%)	9,712,755	↓ 14.4%
Farebox Recovery	5.73	33.1	↓ 5.0

April 2020 saw a significant negative impact on patronage growth (-89.2%) for the fiscal year attributable to the COVID-19 event.

The fiscal Y-T-D patronage remains negative with -14.4% growth for 2019/20.

Farebox Recovery

In the recently adopted Canterbury Regional Public Transport Plan the farebox recovery target has been reviewed. The annualised target is now to maintain or improve on the current level of farebox recovery, that being 38.2, by 2024.

April's 2020's farebox recovery was 5.73 taking the 2019/20 year to date ratio to 33.1 a decrease of 5.0 compared to the same time last year. This has again been driven by Covid-19. It is important to note that April 2020's farebox recovery currently does not include any additional NZTA revenue payment. Once this figure has been finalised April 2020's farebox recovery will increase.

April 2020's average fare was \$2.56 ex GST for Greater Christchurch compared to \$1.66 ex GST for April 2019. From 23 March 2020 Canterbury's fares became free due to the Covid-19 National lockdown. The current April 2020's average fare does not take into account the expected NZTA revenue payment but it does include the bulk funded monthly supergold card payment. Hence an increase in the average fare occurred even though patronage and revenue decreased significantly. As with the farebox recovery April's 2020's average fare will be adjusted once the NZTA revenue payment has been finalised.

Payment Type

Payment Type	MetroCard	Cash	SuperGold Card	Other e.g. Complimentary passes etc
April 2020	0%	0.1%	1.7%	98.2%

With no fares being collected for the month of April, this analysis is not relevant for April

Community Transport

Community Transport (combined Total Mobility and vehicle trusts) Y-T-D is tracking over budget year to date.

\$'000	Year to Date			
FUNDING OF SERVICES - REVENUE	Act	Bud	Var	%
Rates	1,063,359	1,063,359	0	0%
Grants	1,977,931	1,936,968	40,963	2%
User pays and other	16,765	3,194	13,572	425%
Total Revenue	3,058,055	3,003,520	54,535	2%
DELIVERY OF SERVICES - EXPENDITURE	Act	Bud	Var	%
Total Expenditure	3,094,874	3,003,937	90,937	3%
Reserve Accumulation / (Use)	(36,819)	(417)	(36,402)	

Community Transport costs are 3% over budget due to phasing of Vehicle Trust grants being paid in July and increased usage of Total Mobility services during July to February. March and April expenditure is lower than budget due to Covid-19 lockdown impact.

NZTA's fare reduction policy for total mobility took effect from 14 April 2020 and will remain in place until 30 June 2020. During this period, clients share of total mobility costs up to \$35 is paid by ECan which will be 100% claimed back from NZTA.

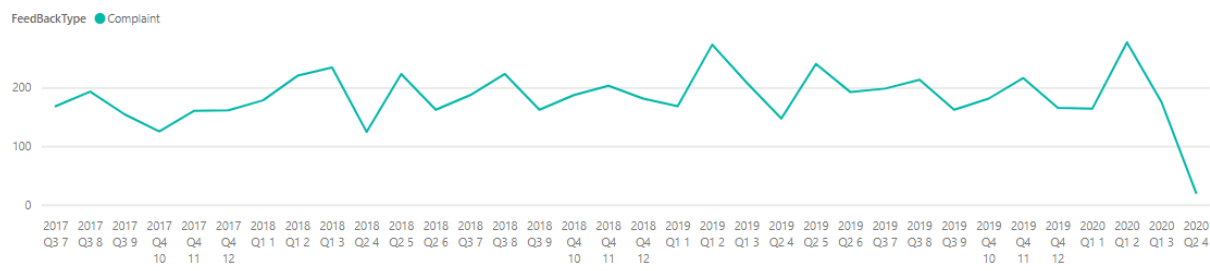
Usage year to date is 7.45% down against last year in terms of trips, with wheelchair trips being down 9.48%. As can be seen from the trends below, March and April usage is significantly down as a result of the COVID response to travel restrictions.

Average subsidised fare for the fiscal year is \$9.75 compared to \$9.26 last year. The increase is primarily driven by the increased hoist usage prior to lockdown.



Feedback

With New Zealand in lockdown and services significantly reduced as a result of COVID, complaint rates were significantly lower



Project Updates

The following Projects are currently in flight:

Real Time Information System	Two suppliers have been shortlisted. The project has been paused while we work through a number of elements relating to the interchange ownership change and consider how the Future PT Business case project will consider this project
Employment Relations Act	<p>The industry has been collaborating at a national level to establish some common principles in the interpretation and application of the changes relating to breaks in the Employment Relations Act. These common principles were received in December and have been socialised with local operators.</p> <p>Work is now underway developing new timetables where appropriate in collaboration with operators which will then be used to determine the cost impost of the legislation change</p>
Service Improvements	Council approved funding for the 2019/20 annual plan to enable service improvements to be delivered in a number of key areas on the network based on the expectation from NZTA of enhanced funding of 75%. This level of funding did not eventuate. In December NZTA subsequently advised that funding at the standard funding rate of 51% had been approved. Given the COVID event, this work has been put on hold and will be considered as part of the up-coming annual Plan deliberations
Timaru On Demand Transport	As a result of COVID, MyWay has been expedited to full operational delivery to support the essential travel needs of the Timaru community during the COVID event. Community engagement continues to be positive with 1682 trips consumed during Level 3 in April
Leeston/Darfield trials	The COVID event has meant these services have been suspended for the moment.

Network Risk Summary

RISKS	MONTHLY UPDATE
Additional costs associated with extensive road works and detours	Moderate: The incidence of detours across the network has reduced significantly in the current year. The risk remains, however, and there are a few large roading projects planned for 2019 which are likely to impact the network.

Fuel price increase	Moderate: Fuel prices continue to be low a result of COVID highlighting its volatility. The Fuel Market Bill currently being considered by government could result in reductions in fuel prices later this year.
Potential for operator to collapse due to contracted market	Moderate: Staff continue to work with operators to ensure they can operate sustainably. The impact of COVID on public transport usage and bus operators is significant. Government have provided funding support to offset lost fare revenue through to 30 June 2020, however this does not cover non-public transport services.
Road User Charge increase	High: Road User Charges increased 2019 with a further increase scheduled for 2020 as part of the Government's Transport funding programme. This will also impact on the NZTA Index
Risk of insufficient NLTP funding to match local share	<p>High: The NLTP funding envelope is under significant pressure nationally.</p> <p>There is a risk that grant funding to support cost scope adjustments across the 3-year NLTP budget envelope may be insufficient or unavailable to match increased costs incurred due to indexing, and contract changes. NZTA have confirmed they have funding contingency to respond to ERA cost changes.</p> <p>It should be noted that there will be a negative impact on revenue gathering from Fuel Excise and Road user Charges as a result of COVID that is a key source of funding for the National Land Transport Fund</p>
Bus driver retention	<p>High: Bus operators advise that driver pool capacity is satisfactory in Canterbury at present, with normal rates of turnover and recruitment activity.</p> <p>COVID has had a material impact on availability of drivers with approximately 30% of the driver workforce in Canterbury being in the COVID at risk category. This will impact on the level of service we are able to provide through this event</p>
Employment Relations Act Changes	<p>Moderate: Changes to the Employment relations Act came into effect on 6 May 2019. An interim solution has been put in place following industry agreement with a 12-month period established to develop and deliver a sustainable long-term solution. As noted under Projects, work continues with industry to develop and finalise a long-term solution.</p> <p>The key goal of this work is to minimise and balance service impact, cost impact while ensuring driver entitlements. Depending on the outcomes and constraints identified, this may result in either additional cost or some reductions in service levels.</p>
COVID-19	<p>High: The COVID-19 has had a severe impact on Public Transport. Travel restrictions have seen patronage drop to around 5% of normal during level 4.</p> <p>Government has designated Public Transport as an essential service to support essential workers and essential travel. Government has instructed public transport to be free and has</p>

	provided funding to offset fare loss. This is a critical response from government to ensure the public transport industry is sustained through this crisis, retaining employment and the ability to stand public transport back up to full operation as the event changes. Driver availability and physical distancing restrictions will impact on the level of service that can be provided for some time.
--	---

6. Audit

6.1. Civic Assurance Annual Report

Performance, Audit and Risk Committee (PARC) report

Date of meeting	28 May 2020
Author	Katherine Harbrow, CFO
Endorsed by	Miles McConway, Director Finance & Corporate Services

Purpose

1. To provide the Performance, Audit and Risk Committee (PARC) with a copy of the Civic Financial Services Ltd Annual Report for the year ended 31 December 2019.

Recommendations

That the Performance, Audit and Risk Committee:

1. **receives the Civic Financial Services Ltd Annual Report for the year ended 31 December 2019.**

Background

2. Civic Financial Services Ltd is owned by local government and supplies local government with a range of financial services.
3. Prior to 1 March 2017 it was known as New Zealand Local Government Insurance Corporation Ltd and traded under the name of Civic Assurance. Its history goes back to 1941.
4. Services administered by Civic Financial Services Ltd include LAPP (www.lappfund.co.nz) and the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes (www.supereasy.co.nz).
5. The Annual Report 2019 is publicly available on Civic Financial Services Ltd website <http://www.civicfs.co.nz/publications.html>
6. Environment Canterbury at 31 December 2019 has 152,696 shares (or 1.36%) in this company (see last page of the Annual Report 2019).
7. The main asset, Civic Assurance House had its strengthening work completed 31 March 2019. At this time the building was listed and was sold with a settlement date of 15 August 2019. On 19 August 2019 Civic Financial Services Ltd paid a Special Dividend to its shareholders, totalling an amount of \$9,418,480 plus accompanying

imputation credits of \$3,662,742.22; representing the sale price of Civic Assurance House of \$10,115,000 less selling costs of \$696,520.

8. Environment Canterbury received \$127,844.05 plus \$49,717.13 imputation credits as a special dividend on the 19 August 2019. This unbudgeted revenue is recognised in other revenue.

Cost, compliance and communication

Financial implications

9. No financial implications from receiving this report.

Risk assessment and legal compliance

10. This investment company now has a much lower asset base with the sale of its major asset, and this may affect the value of the investment in Environment Canterbury 2019/20 Annual Report.
11. Shares in this company are not readily traded and almost all Councils have shareholdings due to its Local Government history.

Significance and engagement

12. No significance or engagement consideration needed.

Consistency with council policy

13. No implications on any Council policy.

Communication

14. This Annual Report is publicly available on Civic Financial Services Ltd website.

Next steps

15. None

Attachments

1. Civic Financial Services Annual Report 2019 [6.1.1 - 36 pages]

File reference	[SharePoint link for this paper]
Peer reviewers	John McClelland, Finance Operations Manager

ANNUAL REPORT 2019

DIRECTORS' REPORT	1
DIRECTORY	5
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	7
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	8
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9
CONSOLIDATED STATEMENT OF CASH FLOWS	10
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	11
INDEPENDENT AUDITOR'S REPORT	30
SHAREHOLDERS' DETAILS	BACK COVER

ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019

Your Directors have pleasure in submitting the 59th Annual Report of the affairs of the Company (formerly New Zealand Local Government Insurance Corporation Ltd trading as Civic Assurance) for the year ended 31 December 2019, which is to be presented at the Annual General Meeting of Members in June 2020.

1. PERFORMANCE

Civic's before-tax profit in 2019 was \$2,251,359 (2018: \$1,196,342).

This compares favourably to the forecasted before-tax surplus of \$421,299 as set out in the 2019 Statement of Intent.

This is due to receiving higher than anticipated administration fees and the one-off gain on the sale of Civic Assurance House.

2. OPERATIONS**Administration Services**

Fees in 2019 from providing services to LAPP, Riskpool and the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes were \$2,947,683 (2018: \$2,792,697).

Investment Revenue

Income from investments was \$329,517 (2018: \$262,878). Income from Civic Assurance House was \$571,970 (2018: \$885,736).

Sale of Civic Assurance House

As communicated in the 2019 Statement of Intent, the strengthening work to prepare Civic Assurance House was completed by 31 March 2019; at which time the building was taken to market. A satisfactory price was subsequently received, and the building sold with a settlement date of 15 August 2019.

Payment of Special Dividend

On 19 August 2019 Civic paid a Special Dividend to its shareholders, totalling an amount of \$9,418,480 plus accompanying imputation credits of \$3,662,742.22; representing the sale price of Civic Assurance House of \$10,115,000 less selling costs of \$696,520.

Loan from ANZ Bank

Civic entered into a loan arrangement whereby it borrowed an amount of \$4 million on 15 November 2018 from the ANZ Bank which was to be repaid on 15 August 2019. Civic lent the same amount of \$4 million to Local Government Mutual Funds Trustee Limited (Riskpool) by way of a secured loan facility agreement on commercial terms, which was to be repaid to Civic by the end of July 2019. Local Government Mutual Funds Trustee Limited (Riskpool) repaid the \$4 million to Civic with Civic repaying the \$4 million to the ANZ Bank on 15 August 2019.

Sponsorship and Support for the Sector

The Company continues as a sponsor of SOLGM (Society of Local Government Managers) events both at a regional and national level.

3. ASSOCIATED ENTITIES**Local Government Superannuation Trustee Limited**

Local Government Superannuation Trustee Limited (LGST) is a 100% subsidiary of Civic and is the trustee to the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes. Both are administered by Civic and from 1 April 2016 both have been registered with the FMA (Financial Markets Authority). Director appointments to LGST are made by LGNZ (two), Civic (one), CTU (one), SOLGM (one) and one, who must be a Licensed Independent Trustee, by the LGST Board.

The SuperEasy schemes feature low member charges and simple administration for councils. Both make use of passive fund managers, which as well as allowing lower member fees removes the possibility of a fund manager making a bad call, which is something that can happen at any time.

The SuperEasy schemes also offer an 'Automatic Fund', in which each member's risk exposure is gradually and automatically switched from growth assets to income assets as the member gets older.

DIRECTORS' REPORT

Superannuation funds under management as at December 2019 were \$420 million (December 2018 \$340 Million) and the combined membership 10,734. SuperEasy's fund managers are AMP Capital Investors (New Zealand) Ltd and ANZ New Zealand Investments Ltd. Of the councils that have a preferred provider for KiwiSaver, 94% have appointed Civic (69 out of 73 councils).

The SuperEasy website is www.supereasy.co.nz.

LAPP Disaster Fund

LAPP is a charitable trust that was set up by LGNZ and Civic in 1993. LAPP's membership is 22. It could be said that LAPP is New Zealand's original LASS (Local Authority Shared Services).

LAPP was designed to cover back-to-back major disasters and this is what happened of course with the Canterbury earthquakes in 2010 and 2011. LAPP settled the claims from Waimakariri District Council and Christchurch City Council for damage to their underground assets with a total payout of \$217 million (excluding GST). LAPP's highest claim before this was just over \$5 million for claims arising from the 2004 Manawatu floods.

LAPP extended its cover arrangement from two events to three events from July 2017.

LAPP settled its Kaikoura-Hurunui earthquake claims with the settlement of the Hurunui District Council's claim in April 2019 having previously settled with Kaikoura and Marlborough District Councils in 2018, for a combined settlement of \$4.66 million.

Civic is the administration and fund manager for LAPP. LAPP's website is: www.lappfund.co.nz.

Riskpool/Civic Liability Pool (CLP)

Riskpool provides public liability and professional indemnity cover for councils and has done so since 1997. It is not a company, but a mutual liability fund governed by a trust deed. CLP is similar to Riskpool, but has no facility for calls. For the fund year ending 30 June 2017 Riskpool/CLP had 31 members.

As support had dropped off in recent years to this low level Riskpool could no longer offer the competitively priced cover and risk management services that it had provided over the previous 20 years.

As a result Riskpool/CLP decided to no longer provide cover after 30 June 2017 and will therefore be in run-off mode for at least the next three to ten years.

Local Government Mutual Funds Trustee Limited (LGMFT) is the trustee of Riskpool and CLP. Civic is the Fund Manager and Scheme Manager for Riskpool and Administration Manager for CLP.

Civic has entered into two arm's length, secured loan facility agreements on commercial terms with Local Government Mutual Funds Trustee Limited to enable Riskpool to manage its cashflows.

Riskpool members were advised in October 2018 that due to deteriorating claims experience in 2017–18 that Riskpool needed to make one interim call before a final call is made on wind up. The call which has been paid was for an amount of \$6 million payable on 1 July 2019, split \$3 million each to fund years 7 and 10.

A final call from Riskpool is likely in 2025 or 2026. It is expected that the amount of that call will be less than this previous call.

4. DIRECTORS

As at 31 December 2019 there were five directors: A.T. Gray, M.C. Hannan, A.J. Marryatt, J.B. Melville and B.J. Morrison. M.A. Butcher retired as a director with effect from 31 March 2019. Following a shareholder vote, it was resolved at the AGM on 21 June 2019 that the Company reduce the maximum number of directors from six to five with effect from 1 July 2019 of which two are to be appointed from outside the local authority sector.

Director attendances at Board meetings held in 2019:

Mark Butcher	1 / 1
Tony Gray	6 / 6
Mike Hannan	6 / 6
Tony Marryatt	6 / 6
John Melville	5 / 6
Basil Morrison	6 / 6

The Chairmen of each of the Board and the Risk and Audit Committee are elected at the first meeting held after each year's AGM.

DIRECTORS' REPORT**Section 139 of the Companies Act 1993**

All Civic directors are directors of LGMFT except Basil Morrison who resigned from LGMFT in March 2019 to ensure that one Civic director was independent of LGMFT. Subsequently there are two secured loan facility agreements that have been entered into between the Company and LGMFT whereby Civic loans LGMFT up to \$2,250,000 under each of two separate loans.

There are no other notices required under section 139 of the Companies Act 1993 except for Directors' remuneration. Changes to the Directors' fee pool are approved by shareholders at an AGM. The Board determines the allocation per Director based on the duties of the individual Director. The Director fees for subsidiary companies are set by the Parent Company Board. For the year ended 31 December 2019, Directors' remuneration was:

Mark Butcher	\$3,806
Tony Gray	\$15,339
Mike Hannan	\$15,339
Tony Marryatt	\$30,679
John Melville	\$23,009
Basil Morrison	\$15,339
	\$103,511

In addition, the following Directors received director fees in relation to their directorships of Riskpool or LGST:

Tony Gray	(Riskpool)	\$8,310
Mike Hannan	(Riskpool)	\$8,310
Tony Marryatt	(Riskpool)	\$16,620
John Melville	(Riskpool)	\$8,310
Basil Morrison	(Riskpool, LGST)	\$13,299
		\$54,849

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship and other disclosures as at 31 December 2019 were:

A.T. Gray	Chair of Ngati Pukenga Investments Ltd; Tatau Tatau o Te Wairoa Commercial Limited; Director of Eastland Group Ltd including Gisborne Airport Ltd, Eastland Port; Eastland Network Ltd; Artemis Nominees Ltd; Quality Rooding and Services (Wairoa) Limited; Local Government Mutual Funds Trustee Ltd; Executive Project Advisor to Hastings District Council; Trustee of Civic Property Pool; a party to an agreement for finance with the LGMFT.
M.C. Hannan	Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd; a party to an agreement for finance with the LGMFT.
A.J. Marryatt	Chair of Local Government Mutual Funds Trustee Ltd; AJM Holdings Ltd; Trustee of Civic Property Pool; Member of SuperEasy KiwiSaver Superannuation Scheme; a party to an agreement for finance with the LGMFT.
J.B. Melville	Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd; a party to an agreement for finance with the LGMFT.
B.J. Morrison	Chairman of Local Government Superannuation Trustee Ltd; Basil J Morrison & Associates Ltd; Member of SuperEasy KiwiSaver Superannuation Scheme; Trustee of Civic Property Pool; Waitangi Tribunal Member; Independent Hearings Commissioner for Auckland Council; Thames-Coromandel District Council Hearings Panel, Waikato Regional Council Hearings Commissioner; Accredited Commissioner – RMA.

The Company provides Directors and officers with, and pays the premiums for, Directors' and Officers' liability insurance to the full extent allowed for, and in accordance with the requirements of the Companies Act 1993. The renewal of the Company's Directors' and Officers' liability insurance was entered in the Interests Register pursuant to sections 162 and 163 of the Companies Act 1993. This insurance does not cover liabilities arising from criminal actions or deliberate and reckless acts or omissions by the Directors. The cover includes indemnity of costs and expenses incurred in defending an action that falls within the scope of the indemnity.

DIRECTORS' REPORT

Conduct of the Board and Board Committee

The Board has put in place and regularly reviews a number of good governance policies including Charters for the Board and the Risk and Audit Committee, Fit and Proper Policy, Code of Conduct, and a Risk Management Plan.

Use of Information

Directors, individually or collectively, may obtain independent professional advice relating to any matters concerning the Company's business or in relation to the discharge of the Director's responsibilities. Subject to approval of the Chairman the Company will reimburse the Director(s) some or all of the reasonable costs of the advice. During the reporting period, no Director has sought leave to obtain such advice.

Loans to Directors

No loans or advances have been made to Directors, their spouses or dependants, or to related parties during the year.

5. EMPLOYEE REMUNERATION

Detailed below is the number of employees who received remuneration in their capacity as employees of \$100,000 or more during the year ended 31 December 2019.

Remuneration	Number of Employees
\$140,000 – \$150,000	1
\$170,000 – \$180,000	1

The above remunerations include Company contributions to employees' superannuation (KiwiSaver and other), medical insurances and discretionary bonus payments.

6. AUDIT AND RISK MANAGEMENT

Pursuant to Section 15 of the Public Audit Act 2001 the Company's auditor is the Auditor General who has appointed Silvio Bruinsma using the staff and resources of Deloitte Limited to carry out the audit on his behalf.

The Risk and Audit Committee (RAC) comprises the full Board. John Melville is the Chairman of this committee. RAC met five times in 2019: the Auditor attended two of those meetings and a part of one of those meetings was held without management present.

7. DONATIONS

No donations have been made during the year by any Company in the Group (2018: \$0).

8. STAFF

We sincerely thank the staff for their work during the year. They are: Ian Brown, Sylvia Jackson, Chathuri Mendis, Lisa Norris, Ashley Reid, Tim Sole and Glenn Watkin.



Tony Marryatt **Chairman**
March 2020

DIRECTORS

Anthony (Tony) J. Marryatt (Chairman)
Anthony (Tony) T. Gray
Michael C. Hannan
John B. Melville
Basil J. Morrison CNZM JP

EXECUTIVE OFFICERS

Chief Executive : Ian Brown
Chief Financial Officer : Glenn Watkin

AUDITORS

The Auditor General, who has appointed Silvio Bruinsma, Deloitte Limited to carry out the audit on his behalf

BANKERS

ANZ Banking Group (New Zealand) Limited
Bank of New Zealand

LEGAL ADVISERS

Brandons
Kensington Swan

COMPANY REGISTRATION NO: 13271

REGISTERED OFFICE

Level 7, Civic Assurance House, 116 Lambton Quay, Wellington 6011

POSTAL ADDRESS

Civic Financial Services Ltd, PO Box 5521, Wellington 6140

OTHER CONTACT DETAILS

Telephone (04) 978 1250
Facsimile (04) 978 1260
Email admin@civicfs.co.nz
Website www.civicfs.co.nz

The Company is a participant in the Insurance & Financial Services Ombudsman Scheme (Inc)
Participant Number 2000427

Statement of Accounts



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	2019 \$	2018 \$
REVENUE			
Administration Fees		2,947,683	2,792,697
Interest Income	4	329,517	262,878
Property Income		571,970	885,736
Gain on sale of Building	7	1,209,909	-
Other Income		129	202
Total Revenue		5,059,208	3,941,513
EXPENDITURE			
Audit Fee			
Statutory Audit of the Financial Statements		116,462	109,779
Other Fees Paid to Auditors Re Assurance Services		30,500	27,500
Other Fees Paid to Auditors Re Tax Compliance		19,077	30,500
Compliance Costs		103,122	110,085
Consultants		44,852	47,936
Depreciation	6	35,053	46,134
Amortisation	6	-	246
Directors' Remuneration	3	103,511	113,344
Interest Expense		130,249	9,429
Legal Fees		38,273	29,547
Property Operating Expenses		396,332	512,887
Other Expenses		1,039,624	989,600
Employee Remuneration	3	729,533	825,430
Superannuation Subsidies		21,261	25,824
Total Expenditure		2,807,849	2,878,241
Surplus Before Revaluation of Investment Property and Taxation		2,251,359	1,063,272
Net Change in Value of Investment Property	7	-	133,070
Surplus Before Taxation		2,251,359	1,196,342
Taxation Expense	10	300,881	298,891
TOTAL COMPREHENSIVE SURPLUS AFTER TAX ATTRIBUTABLE TO OWNERS OF THE COMPANY	15	1,950,478	897,451


This statement is to be read in conjunction with the notes on pages 11 to 29.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	NOTE	2019 \$	2018 \$
SHAREHOLDERS' EQUITY			
Issued and Paid-Up Ordinary Shares			
Ordinary Shares fully paid up	15	10,763,506	10,763,506
Retained Earnings	15	(286,457)	7,181,545
TOTAL EQUITY		10,477,049	17,945,051
Represented By:			
CURRENT ASSETS			
Cash & Cash Equivalents		274,428	3,414,025
Term Deposits		5,290,045	1,200,000
Sundry Debtors and Prepayments	12	554,609	594,445
Loan Receivable	13	1,996,527	6,280,284
Income Tax Receivable	10	-	3,580
Total Current Assets		8,115,609	11,492,334
NON CURRENT ASSETS			
Property, Plant and Equipment	6	34,447	165,120
Intangible Assets (Software)	6	89,000	89,000
Deferred Tax Asset	10	2,486,080	2,786,961
Investment Property	7	-	7,777,583
Total Non Current Assets		2,609,527	10,818,664
TOTAL ASSETS		10,725,136	22,310,998
CURRENT LIABILITIES			
Sundry Creditors & Accrued Charges	12	112,990	204,028
Accrued Holiday Pay		37,662	45,228
Borrowings	13	-	4,000,000
CLP/ Riskpool Admin Fee Reserve		52,530	52,530
Total Current Liabilities		203,182	4,301,786
NON-CURRENT LIABILITIES			
CLP/ Riskpool Admin Fee Reserve		44,905	64,161
Total Non Current Liabilities		44,905	64,161
TOTAL LIABILITIES		248,087	4,365,947
EXCESS OF ASSETS OVER LIABILITIES		10,477,049	17,945,051

For and on behalf of the Directors:



TONY MARRYATT Chairman 19 March 2020



JOHN MELVILLE Director 19 March 2020

This statement is to be read in conjunction with the notes on pages 11 to 29.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	2019 \$	2018 \$
OPENING EQUITY		17,945,051	17,047,600
Total Comprehensive Surplus Net of Tax		1,950,478	897,451
Dividend Payment		(9,418,480)	-
Ordinary Shares issued during the year	15	-	-
CLOSING EQUITY		10,477,049	17,945,051

This statement is to be read in conjunction with the notes on pages 11 to 29.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Rent Received		561,561	889,802
Administration Fees Received		2,849,062	2,574,636
Other Income		129	202
Taxation (Paid)/Refunded		(5,133)	133
		3,405,619	3,464,773
Cash was applied to:			
Payments to Suppliers and Employees		2,605,883	2,838,687
		2,605,883	2,838,687
Net Cash Flow from Operating Activities	11	799,736	626,086
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Investment Income		115,061	76,150
Term Deposits		-	2,300,000
Investment Property		9,116,888	-
Loans Repaid from Related Parties		5,300,000	3,842,591
		14,531,949	6,218,741
Cash was applied to:			
Term Deposits		4,090,045	-
Purchase of Property, Plant and Equipment		30,721	21,423
Capital Additions to Investment Property		-	469,514
Loans Issued to Related Parties		985,550	8,790,242
		5,106,316	9,281,179
Net Cash Flow from Investing Activities		9,425,633	(3,062,438)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Loan Interest Received		183,763	157,409
Borrowings		(4,000,000)	4,000,000
		(3,816,237)	4,157,409
Cash was applied to:			
Interest Paid		130,249	9,429
Dividend Paid		9,418,480	-
		9,548,729	9,429
Net Cash Flow from Financing Activities		(13,364,966)	4,147,980
Net (Decrease)/Increase in Cash Held		(3,139,597)	1,711,628
Opening Cash Balance as at 1 January		3,414,025	1,702,397
Closing Cash Balance as at 31 December		274,428	3,414,025
Being:			
Cash & Cash Equivalents		274,428	3,414,025

This statement is to be read in conjunction with the notes on pages 11 to 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 1 REPORTING ENTITY

The reporting entity is Civic Financial Services Ltd (the "Company"), formerly known as New Zealand Local Government Insurance Corporation Ltd (trading as Civic Assurance). The Group comprises the Company and its subsidiaries listed in note 2 (b). The Group provides financial services principally for New Zealand local government and also provides property services. The Company provided insurance products to New Zealand local authorities until 31 December 2016 and subsequently opted to cancel its provisional insurance licence with the Reserve Bank of New Zealand. As a result this entity is not an FMC reporting entity from 17 January 2017.

Statement of Compliance

The Group is a Tier 2 Public Sector Public Benefit Entity and the financial statements have been prepared in accordance with and comply with Tier 2 Public Sector Public Benefit Entity (PBE) Standards.

NOTE 2 STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

The measurement and reporting of profits on a historical cost basis have been followed by the Group, except for specific policies as described below. The reporting currency is New Zealand dollars. The Group is no longer subject to the requirements under the Insurance (Prudential Supervision) Act 2010 as a provisional licence holder.

Critical Judgements and Estimates in Applying the Accounting Policies

In the application of the PBE Standards the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. These are based on historical experience and other various factors and are reviewed on an ongoing basis.

The Directors believe that, as at the date of these financial statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. The most significant judgements, estimates and assumptions made in the preparation of these financial statements are in respect of the recognition of the deferred tax asset (Note 10).

Particular Accounting Policies

The following particular accounting policies which materially affect the measurement of surplus and financial position have been applied. Further particular accounting policies are contained in the relevant notes to the financial statements.

(a) Consolidation of Subsidiaries

The Group financial statements incorporate the financial statements of the Company and its subsidiaries, which have been consolidated using the acquisition method. The results of any subsidiaries acquired or disposed of during the year are consolidated from the effective dates of acquisition or until the effective dates of disposal. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

(b) Investment in Subsidiaries

At 31 December 2019 the Company had three wholly owned subsidiaries which are all incorporated in New Zealand. Two of these, Local Government Superannuation Trustee Limited and SuperEasy Limited with balance dates of 31 December and Local Government Mutual Funds Trustee Limited (LGMFTL) with its balance date of 30 June did not have any significant assets, liabilities, revenue or expenses during the years ended 31 December 2018 and 31 December 2019.

LGMFTL is the trustee of New Zealand Mutual Liability Riskpool ("Riskpool") and Civic Liability Pool ("CLP"). The Company provides administrative services to Riskpool and CLP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 2 STATEMENT OF ACCOUNTING POLICIES CONTINUED**(c) Administration Fees**

Administration fees are recognised at the agreed amounts based on time and expenses incurred. Administration fees collected during the year that will be utilised in future periods are held within the administration fee reserve on the Statement of Financial Position, until the point in time where administration services have been provided.

(d) Property Income

Property rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(e) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

(f) Basis of Measuring Other Income and Expenses

Income and expenses are accounted for on an accruals basis. All revenue is exchange revenue.

(g) Changes in Accounting Policies

There have been no material changes in the accounting policies during the year. All policies have been applied on bases consistent with those used in the prior year.

NOTE 3 KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

The compensation of the Directors and executives, being the key management personnel of the Group, is set out below.

	2019	2018	2019	2018
	Number		\$	\$
Short term employee benefits				
Executive Management Personnel	3	3	409,204	479,523
Directors	6	6	103,511	113,344
			512,715	592,867

As at 31 December 2019 the Company had a loan receivable from New Zealand Mutual Liability Riskpool ("Riskpool") of \$973,927 (2018: \$6,086,844) and from Civic Liability Pool ("CLP") of \$1,022,600 (2018: \$193,440).

All related party transactions that the Group entered into during the year occurred within a normal client/supplier relationship and under terms equivalent to those that prevail in arm's length transactions in similar circumstances except for the loan to CLP which has no interest attached to it. Refer to Note 13 for information relating to loans with subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 4 FINANCIAL INSTRUMENTS

Accounting Policies:

i) Classification and Measurement

Financial instruments are transacted on a commercial basis to derive an interest yield / cost with the terms and conditions having due regard to the nature of the transaction and the risks involved. Financial instruments are recognised and accounted for on a settlement date basis.

Loans and Receivables

Other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate.

Bank and Cash Equivalents

Bank and cash equivalents are measured at amortised cost using the effective interest rate.

Financial Liabilities

Financial liabilities include Sundry Creditors, Accrued Charges and Subordinated Debt. Financial liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost.

ii) Offsetting Financial Instruments

Financial assets and liabilities are not offset as there is no legally enforceable right to set-off.

iii) Asset Quality

Impairment of Financial Assets

Financial assets measured at amortised cost are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such condition exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

As at the date of these Financial Statements, no such evidence of impairment exists.

iv) Fair Value of Financial Instruments

Fair value measurements recognised in the Statement of Financial Position

Financial instruments are categorised into 3 levels:

- **Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

v) Derivatives

The Group do not use any derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 4 FINANCIAL INSTRUMENTS CONTINUED*Accounting Policies: continued***(1) Income Relating to Financial Assets**

	2019 \$	2018 \$
Loans		
Interest Received – Loans	214,456	186,729
Cash & Cash Equivalents		
Interest Received – Short Term Deposits	115,061	76,149
Total Interest Income	329,517	262,878

(2) Financial Assets and Liabilities

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their market value, which for these assets and liabilities is also considered to be fair value.

The Subordinated Debt is measured at amortised cost which is considered to be fair value.

All fixed interest investments were managed around a 90 day duration and carry a minimum Standard and Poors credit rating of "A" or equivalent. Loans are secured against Riskpool's future contributions and repayable with six months notice (refer to Note 13).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 4 FINANCIAL INSTRUMENTS CONTINUED

(2) Financial Assets and Liabilities continued

Carrying value of Financial Assets and Financial Liabilities

	2019 \$	2018 \$
Financial Asset: Loans and Receivables		
Sundry Debtors	501,440	444,308
Loans	1,996,527	6,280,284
Total Loans and Receivables	2,497,967	6,724,592
Financial Asset: Amortised Cost		
Cash & Cash Equivalents	274,428	3,414,025
Financial Liability: Amortised Cost		
Sundry Creditors & Accrued Charges	112,990	204,028
Borrowings	-	4,000,000
Total Amortised Cost	112,990	4,204,028

(3) Financial Risk – Structure and Management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern. The Group's overall strategy is reviewed annually and remains unchanged.

Financial instruments which potentially subject the Group to a concentration of credit risk consist principally of cash and interest bearing deposits. The Group has no debt liability instruments.

The Group does not require collateral or other security to support financial instruments with credit risk and as such, no collateral exists for any of the investments held by the Group. The maximum credit risk exposure is the carrying amount of the individual debtor and investment balances.

The Group has placed interest bearing deposits and funds to be managed with financial institutions and limits its amount of credit exposure to any one such institution.

(a) Market Risk

All financial assets and liabilities are New Zealand Dollar based and are recorded at amortised cost, therefore changes in interest rates and foreign currency values do not impact on their carrying value.

(b) Carrying Amount and Fair Value

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 4 FINANCIAL INSTRUMENTS CONTINUED**(3) Financial Risk – Structure and Management** continued**(c) Liquidity Risk**

Liquidity Risk is the risk that the Group will encounter difficulties in raising funds at short notice to meet commitments associated with financial instruments. Management of liquidity risk is designed to ensure that the Group has the ability to meet financial obligations as they fall due.

The following tables include an analysis of the contractual undiscounted cash flows relating to the Group's financial assets and liabilities categorised by the maturity dates.

Maturity Analysis as at 31 December 2019						
	Interest Rate Spread %	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
Assets						
Cash & Cash Equivalents	0 to 0.35%	274,428	-	-	-	274,428
Term Deposits	1.75% to 2.75%	5,290,045	-	-	-	5,290,045
Other Receivables	n/a	501,440	-	-	-	501,440
Loans	3.79% to 4.52%	1,996,527	-	-	-	1,996,527
Total Financial Assets		8,062,440	-	-	-	8,062,440
Liabilities						
Sundry Creditors & Accrued Expenses	n/a	112,990	-	-	-	112,990
Borrowings	-	-	-	-	-	-
Total Financial Liabilities		112,990				112,990
Maturity Analysis as at 31 December 2018						
	Interest Rate Spread %	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
Assets						
Cash & Cash Equivalents	0 to 3.45%	3,414,025	-	-	-	3,414,025
Term Deposits	3.05%	1,200,000	-	-	-	1,200,000
Other Receivables	n/a	637,748	-	-	-	637,748
Loans	4.71% to 6.28%	6,086,844	-	-	-	6,086,844
Total Financial Assets		11,338,617	-	-	-	11,338,617
Liabilities						
Sundry Creditors & Accrued Expenses	n/a	204,028	-	-	-	204,028
Borrowings	4.78%	-	4,000,000	-	-	4,000,000
Total Financial Liabilities		204,028	4,000,000	-	-	4,204,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 4 FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk – Structure and Management continued

(d) Credit Risk

All investments are in the form of cash held at registered banks and loans. The registered banks have a credit rating of "A" or better. Loans are with Riskpool (refer to Note 13).

(i) Exposure to Credit Risk

	2019 \$	2018 \$
Cash & Cash Equivalents	274,428	3,414,025
Term Deposits	5,290,045	1,200,000
Other Receivables	501,440	637,748
Loans	1,996,527	6,086,844
Total	8,062,440	11,338,617

(ii) Concentration of Credit Exposure

94% of the Company's credit exposure is in the form of cash and term deposits held with registered banks and loans to Riskpool.

NOTE 5 OPERATING LEASE COMMITMENTS

	2019 \$	2018 \$
Operating Lease Expense Commitments:		
not later than one year	74,208	12,444
later than one year but not later than five years	256,832	29,035
later than five years	37,400	-
	368,440	41,479
Operating Lease Income Commitments:		
not later than one year	-	792,940
later than one year but not later than five years	-	2,247,948
later than five years	-	96,562
	-	3,137,450

Operating lease income relates to a combination of office and retail tenancies to the Investment Property referred to in Note 7. The property was sold in August 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 6 PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS**Accounting Policy:**

Assets are depreciated on a straight line basis at rates calculated to allocate the assets' cost, in equal instalments over their estimated useful lives which are assessed and regularly reviewed.

Depreciation Rates	
Office Furniture and Equipment	up to 17 years
Intangibles – Software	5 years

	2019 \$	2018 \$
(a) Property, Plant and Equipment		
Office Furniture and Equipment – cost	690,697	669,274
Plus Additions	33,776	21,423
Less Disposals	(595,089)	-
Closing Value – cost	129,384	690,697
Office Furniture and Equipment – Accumulated Depreciation	(525,577)	(479,443)
Less Depreciation Charge	(35,053)	(46,134)
Less Disposals	465,693	-
Closing Accumulated Depreciation	(94,937)	(525,577)
Net Book Value	34,447	165,120

The Total Comprehensive Surplus After Tax in the Statement of Comprehensive Income includes a \$3,055 loss on disposal of fixed assets (2018: nil).

(b) Intangible Assets		
Software - cost	519,453	519,453
Plus Additions	-	-
Less Disposals	-	-
Closing Value – cost	519,453	519,453
Software – Accumulated Amortisation	(430,453)	(430,207)
Less Amortisation Charge	-	(246)
Less Disposals	-	-
Closing Accumulated Amortisation	(430,453)	(430,453)
Net Book Value	89,000	89,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 7 INVESTMENT PROPERTY

Accounting Policy:

Investment property is measured at fair value, by reference to an external market valuation (performed annually), with any resulting unrealised gain or loss recognised in the Statement of Comprehensive Income.

	2019 \$	2018 \$
Civic Assurance House, Lambton Quay, Wellington		
(a) Land and Building	-	7,150,000
Refurbishment	-	469,513
Increase/(Decrease) in value	-	133,070
Level 3 Fair Value	-	7,752,583
(b) Artwork valuation	-	25,000
Fair Value	-	25,000
	-	7,777,583

The Company had received preliminary advice that investigations and calculations as part of a seismic assessment review highlighted an issue with unreinforced masonry in non-structural parts of the building and, under the Building (Earthquake-prone Buildings) Amendment Act 2016, the building was therefore potentially earthquake prone.

The Company mitigated this risk and completed seismic strengthening work by 31 March 2019. Civic Assurance House achieved a 70% New Building Standard (NBS) rating when the strengthening work was completed. The investment property valuation for 2018 had been obtained as at 30 October 2018 on an 'as if complete' basis in regards to the strengthening and asbestos works that were required to be completed. As at 31 December 2018 \$352k had been spent on earthquake strengthening and \$51k had been spent on asbestos works, with further works to be completed after 31 December 2018. The amount spent as at year end on the works has been added onto the valuers valuation of the property to reach the final fair value of the property.

The investment property valuation as at 30 October 2018 was completed on 7 November 2018 by independent registered valuer Martin Veale (ANZIV, SPINZ) of the firm Telfer Young (Wgtn) Ltd. The property was valued in accordance with International Valuation Standards 2017. The Investment property was Level 3 fair value due to containing unobservable inputs.

The adopted market value had been established by consideration of the Income Capitalisation and Discounted Cashflow approaches. Major inputs and assumptions used in the valuation were rental income, capital expenditure, capitalisation rate and market rent per square metre, discount rate, occupancy and weighted average lease terms.

The Company borrowed \$4,000,000 from the ANZ Bank with this loan secured over Civic Assurance House. This loan was repaid in full on 15 August 2019.

The investment property was sold during the reporting period for \$10,115,000 following the completion of earthquake strengthening and asbestos works as described below. Settlement for the sale of Civic Assurance House was 15 August 2019. Following settlement, on 19 August 2019 the Company paid a special dividend to shareholders of \$9,418,480 plus accompanying imputation credits to offset any tax liability for shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 8 ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

There are no financial assets that are impaired or past due at balance date (2018: \$nil).

NOTE 9 CONTINGENT LIABILITIES

There are no contingent liabilities (2018: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 10 TAXATION

Accounting Policies:

i) Current Tax

The current income tax expense charged against the profit for the year is the estimated liability in respect of the taxable profit. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets are offset only when there is a legally enforceable right to set off the recognised amounts, and an intention to settle on a net basis.

ii) Deferred Tax

The liability method of accounting for deferred taxation is applied on a comprehensive balance sheet basis in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income.

iii) Goods and Services Tax (GST)

Revenue, expenses, assets and liabilities are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 10 TAXATION CONTINUED**(a) Income tax recognised in the Statement of Comprehensive Income**

	2019 \$	2018 \$
Tax expense comprises:		
Current tax expense	-	-
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Deferred tax relating to temporary differences	300,881	298,891
Total tax expense	300,881	298,891
Attributable to:		
Continuing operations	300,881	298,891
	300,881	298,891

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2019 \$	2018 \$
Surplus before tax	2,251,359	1,196,342
Income tax calculated at 28%	630,382	334,977
Tax effect of permanent differences	(337,412)	(36,057)
Prior Period Adjustment	7,912	(28)
Income Tax Expense	300,881	298,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 10 TAXATION CONTINUED

(b) Current tax assets and liabilities

	2019 \$	2018 \$
Tax refund receivable	-	3,580
	-	3,580

(c) Deferred tax balances

	2019 \$	2018 \$
Deferred tax assets comprise:		
Temporary differences	2,484,665	3,311,153
	2,484,665	3,311,153
Deferred tax liabilities comprise:		
Temporary differences	1,416	(524,191)
	1,416	(524,191)
Net Deferred Tax balance	2,486,080	2,786,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 10 TAXATION CONTINUED**(c) Deferred tax balances continued**

Gross taxable and deductible temporary differences for the Group arise from the following:

		Opening Balance \$	Charged to Income \$	Charged to Equity \$	Prior Period Adjustment \$	Closing Balance \$
2019	Investment gains	-	-	-	-	-
	Building, property and equipment	(1,872,109)	1,905,422	-	(28,256)	5,057
		(1,872,109)	1,905,422	-	(28,256)	5,057
	Employee entitlements	41,132	11,033	-	(25,625)	26,540
	Losses carried forward	11,784,413	(2,962,774)	-	25,625	8,847,264
		11,825,545	(2,951,741)	-	-	8,873,804
	Attributable to:					
	Continuing operations	9,953,436	(1,046,319)	-	(28,256)	8,878,861
	Total	9,953,436	(1,046,319)	-	(28,256)	8,878,861
	Tax effect at 28%	2,786,963	(292,970)	-	(7,913)	2,486,080
2018	Investment gains	-	-	-	-	-
	Building, property and equipment	(1,794,628)	(89,567)	-	12,086	(1,872,109)
		(1,794,628)	(89,567)	-	12,086	(1,872,109)
	Employee entitlements	40,265	867	-	-	41,132
	Losses carried forward	12,775,265	(978,865)	-	(11,987)	11,784,413
		12,815,530	(977,998)	-	(11,987)	11,825,545
	Attributable to:					
	Continuing operations	11,020,902	(1,067,565)	-	99	9,953,436
	Total	11,020,902	(1,067,565)	-	99	9,953,436
	Tax effect at 28%	3,085,851	(298,916)	-	28	2,786,963

No liability has been recognised in respect of the undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The deferred tax asset relating to tax losses carried forward has been recognised as the financial forecasts anticipate the Group maintaining sufficient profitability in future financial years (refer Note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(d) Imputation Credit Account

	2019 \$	2018 \$
Closing Balance	1,593,490	5,259,812

NOTE 11 RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITIES

Accounting Policy:

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income. The GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to, the taxation authority is classified as operating cash flow.

The following are definitions of the terms used in the Statement of Cash Flows:

- Bank comprises cash on hand and demand deposits.
- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of Cash and which are subject to insignificant risk of changes in value.
- Cash flows are inflows and outflows of cash and cash equivalents.
- Operating activities are the principal revenue producing activities of the entity and other activities that are not investing or financing activities.
- Investing activities are the acquisition and disposal of long-term assets.
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 11 RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITIES CONTINUED

	2019 \$	2018 \$
Total Comprehensive Surplus	1,950,478	897,451
Add/(less) non cash items		
Loan Interest	(30,693)	(29,319)
Depreciation	35,053	46,134
Amortisation	-	246
Movement in CLP/ Riskpool Admin Fee Reserve	(19,256)	(225,835)
Movement in Deferred Tax Asset	300,881	298,891
Net change in fair value of investment property	-	(133,070)
	285,985	(42,953)
Add/(less) movements in other working capital items		
Sundry Debtors and Prepayments and Reinsurance Recoveries	39,835	(59,784)
Sundry Creditors and Accrued Charges	(98,603)	55,502
Tax Refund Due	3,580	-
	(55,188)	(4,282)
Add/(Less) Items Classified as Investing Activity	(1,511,787)	(76,150)
Add/(Less) Items Classified as Financing Activity	130,249	(147,980)
Net Cash Flow from Operating Activities	799,736	626,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 12 SUNDRY DEBTORS AND CREDITORS

(a) Sundry Debtors and Prepayments

	2019 \$	2018 \$
Sundry Debtors	501,440	444,308
Prepayments	43,296	145,453
GST Receivable	9,873	4,684
Sundry Debtors and Prepayments	554,609	594,445

(b) Sundry Creditors and Accrued Charges

	2019 \$	2018 \$
Sundry Creditors and Accrued Charges	112,990	204,028
Sundry Creditors and Accrued Charges	112,990	204,028

NOTE 13 LOANS

Loan Receivable

Local Government Mutual Funds Trustee Limited is the trustee of New Zealand Mutual Liability Riskpool ("Riskpool") and Civic Liability Pool ("CLP"). The Company provides administrative services to Riskpool and CLP.

Secured loan agreements between the Company and Local Government Mutual Funds Trustee Limited on behalf of New Zealand Mutual Liability Riskpool ("Riskpool") were entered into in February 2017, August 2017 and again in November 2018 to assist with Riskpool's cashflow. The amounts made available under the 2017 agreements were reduced in 2018 to provide facilities of \$2,250,000 each (2017: \$3,000,000) and under the terms of the loans the interest rate is set as BKBM plus a margin. The November 2018 agreement provides a loan facility of \$4,000,000. Under the terms of the loan agreement the interest rate is set at the ANZ Bank lending rate plus a margin. Riskpool may repay the loans and any interest at any time without penalty. The Company may at any time withdraw the facilities by notice in writing to Riskpool to that effect, from which time no further funds will be provided but without giving rise to a requirement for Riskpool to repay the outstanding balance of the loan. The Company may require repayment of the loans (including all interest) in full or in part at any time with six months' notice. Either party may terminate the agreements on six months' notice or any other such period that both parties agree to. On termination, the loan outstanding and any interest due to the date of repayment must be paid within the period of notice. The loan outstanding at 31 December 2019 is \$973,927 (2018: \$6,086,844).

The Company and Local Government Mutual Funds Trustee Limited on behalf of Civic Liability Pool ("CLP") have an agreement whereby the Company funds any claims payable for CLP under the Trust Deed, without charge to the Trust, which will be reimbursed by CLP in respect of any such claim payments when CLP receives the applicable reinsurance payments on the claims. The loan outstanding at 31 December 2019 is \$1,022,600 (2018: \$193,440).

Borrowings

The Company borrowed \$4,000,000 from the ANZ Bank in 2018 with this loan secured over Civic Assurance House. The loan was repaid in full on 15 August 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 14 AUDIT FEES

A breakdown of the fees paid to the auditors is below:

	2019 \$	2018 \$
Statutory Audit of the Financial Statements		
Civic Financial Services	57,975	52,235
Civic Liability Pool	15,000	13,500
Local Government Superannuation Trustee	43,487	44,044
Total Statutory Audit of the Financial Statements	116,462	109,779
Other Fees Paid to Auditors Re Assurance Services	30,500	27,500
Other Fees Paid to Auditors Re Tax Compliance	19,077	30,500
Total Fees Paid to the Auditors	166,039	167,779

NOTE 15 SHAREHOLDERS' EQUITY

The Share Capital of the Group comprises solely authorised and issued ordinary shares with each share ranking equally in votes, dividends and surpluses. In 2018, there were no shares were issued. There were no shares issued during 2019.

	2019 \$	2018 \$
Retained Earnings		
Opening Balance	7,181,545	6,284,094
Net Surplus After Taxation	1,950,478	897,451
Dividend Payment	(9,418,480)	-
Closing balance	(286,457)	7,181,545
Shareholders Capital		
Opening Balance	10,763,506	10,763,506
Ordinary Shares issued during the year	-	-
Closing balance	10,763,506	10,763,506
Number of Ordinary Shares Fully Paid	11,249,364	11,249,364
Par Value per Share	\$0.93	\$1.60
Dividend Payment per Share	\$0.84	\$0.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 16 EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All shareholder equity is retained to ensure the financial soundness of the Group with cash being retained for cash flow purposes. A special dividend of \$9,418,480 was paid to shareholders on 19 August 2019 following the sale of Civic Assurance House.

NOTE 17 STANDARDS APPROVED BUT NOT YET EFFECTIVE

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, one Standard and Interpretation was in issue that was relevant to the Group, but not yet effective.

Initial application of the following Standard is not expected to affect any of the amounts recognised in the financial report or change the presentation and disclosures presently made in or relation to the Group's financial report:

	<i>Effective for annual reporting periods beginning on or after</i>	<i>Expected to be initially applied in the financial year ending</i>
Revised NZ IFRS 9 'Financial Instruments'	1 January 2021	31 December 2021

NOTE 18 SUBSEQUENT EVENTS

There have been no material events subsequent to 31 December 2019 that require adjustment to or disclosure in the financial statements.

NOTE 19 CAPITAL COMMITMENTS

The Company has no capital commitments at balance date (2018: \$431,527 for contracts relating to the earthquake strengthening and asbestos works).

NOTE 20 GOING CONCERN

The financial statements have been prepared on a going concern basis.

The profitability of financial services supports the going concern assumption for Civic Financial Services Ltd as a whole. The deferred tax asset is reviewed regularly and at balance date against forecast profits and future business opportunities. The Directors believe that it is probable that sufficient taxable profits will be available in the future against which the unused tax losses can be utilised.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF CIVIC FINANCIAL SERVICES LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Auditor-General is the auditor of Civic Financial Services Limited and its subsidiaries (the 'Group'). The Auditor-General has appointed me, Silvio Bruinsma, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated financial statements of the Group on his behalf.

OPINION

We have audited the consolidated financial statements of the Group on pages 7 to 29, that comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the consolidated financial statements that include accounting policies and other explanatory information.

In our opinion, the consolidated financial statements of the Group:

- present fairly, in all material respects:
 - its financial position as at 31 December 2019; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Sector Public Benefit Entity Standards.

Our audit was completed on 19 March 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the audit of the consolidated financial statements, we comment on other information and we explain our independence.

BASIS FOR OUR OPINION

We carried out our 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. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible on behalf of the Group for preparing consolidated financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible, on behalf of the Group, for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Companies Act 1993.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these consolidated financial statements.

We did not evaluate the security and controls over the electronic publication of the consolidated financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements, or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

INDEPENDENT AUDITOR'S REPORT *CONTINUED*

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 5 but does not include the consolidated financial statements, and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out engagements in the areas of tax compliance and controls assurance, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.



Silvio Bruinsma
Deloitte Limited
On behalf of the Auditor-General
Wellington, New Zealand

CIVIC FINANCIAL SERVICES SHAREHOLDERS AS AT 31 DECEMBER 2019

SHAREHOLDER MEMBER		NO. OF SHARES		SHAREHOLDER MEMBER		NO. OF SHARES	
CITY COUNCILS				DISTRICT COUNCILS (Cont'd)			
Auckland	2,195,042	19.51%	Rangitikei	35,338	0.31%		
Christchurch	1,417,704	12.60%	Rotorua	175,906	1.56%		
Dunedin	470,966	4.19%	Ruapehu	56,666	0.50%		
Hamilton	202,729	1.80%	South Taranaki	135,496	1.20%		
Hutt	479,822	4.27%	South Waikato	42,374	0.38%		
Invercargill	407,927	3.63%	South Wairarapa	53,930	0.48%		
Napier	283,842	2.52%	Southland	13,715	0.12%		
Nelson	95,543	0.85%	Stratford	65,608	0.58%		
Palmerston North	411,737	3.66%	Tararua	99,972	0.89%		
Porirua	140,146	1.25%	Tasman	65,584	0.58%		
Tauranga	124,242	1.10%	Taupo	83,971	0.75%		
Upper Hutt	51,209	0.46%	Thames-Coromandel	27,120	0.24%		
Wellington	526,821	4.68%	Timaru	230,118	2.05%		
			Waikato	41,070	0.37%		
			Waimakariri	88,172	0.78%		
DISTRICT COUNCILS			Waimate	30,458	0.27%		
Ashburton	56,016	0.50%	Waipa	149,082	1.33%		
Buller	27,698	0.25%	Wairoa	22,992	0.20%		
Carterton	23,642	0.21%	Waitaki	120,000	1.07%		
Central Hawke’s Bay	28,580	0.25%	Waitomo	16,940	0.15%		
Central Otago	91,238	0.81%	Wanganui	289,660	2.57%		
Clutha	33,711	0.30%	Western Bay of Plenty	28,142	0.25%		
Far North	85,440	0.76%	Westland	28,356	0.25%		
Gisborne	99,404	0.88%	Whakatane	38,788	0.34%		
Gore	54,589	0.49%	Whangarei	63,524	0.56%		
Grey	33,742	0.30%					
Hastings	129,170	1.15%					
Hauraki	63,434	0.56%	REGIONAL COUNCILS				
Horowhenua	110,689	0.98%	Bay of Plenty	55,000	0.49%		
Hurunui	14,000	0.12%	Canterbury	152,696	1.36%		
Kaikoura	10,000	0.09%	Hawke’s Bay	20,000	0.18%		
Kaipara	13,629	0.12%	Horizons	2,000	0.02%		
Kapiti Coast	15,060	0.13%	Southland	10,000	0.09%		
Kawerau	31,161	0.28%	Taranaki	1,000	0.01%		
Manawatu	203,964	1.81%	Waikato	22,000	0.20%		
Marlborough	86,022	0.76%	Wellington	80,127	0.71%		
Masterton	127,230	1.13%					
Matamata-Piako	122,554	1.09%	OTHER				
New Plymouth	441,456	3.92%	TrustPower	137,251	1.22%		
Opotiki	20,000	0.18%					
Otorohanga	5,000	0.04%	Total Shares				11,249,364
Queenstown-Lakes	31,149	0.28%					

6.2. Annual Report Audit Plan 30 June 2020

Performance, Audit and Risk Committee (PARC) report

Date of meeting	28 May 2020
Author	Katherine Harbrow, CFO
Endorsed by	Miles McConway, Director Finance and Corporate Services

Purpose

1. To provide the Performance, Audit and Risk Committee (PARC) with the Annual Report Audit Plan as proposed by Audit New Zealand (Audit NZ) for the year ended 30 June 2020.
2. To provide PARC with the two letters that Audit NZ require the Chair of Canterbury Regional Council to sign in relation to the annual audit.

Recommendations

That the Performance, Audit and Risk Committee:

1. **receives the Audit New Zealand report titled “Audit Plan Canterbury Regional Council for the year ending 30 June 2020 dated 12 May 2020”.**
2. **receives the Audit NZ engagement letter for the years ending 30 June 2020 to 30 June 2022.**
3. **receives the Audit NZ proposal to conduct the audit of Canterbury Regional Council on behalf of the Auditor-General for the 2020, 2021 and 2022 financial years**
4. **recommends to Council that the chair of Canterbury Regional Council sign the Audit NZ engagement letter for the years ending 30 June 2020 to 30 June 2022.**
5. **recommends to Council that the chair of Canterbury Regional Council sign the Audit NZ proposal to conduct the audit of Canterbury Regional Council on behalf of the Auditor-General for the 2020,2021 and 2022 financial years.**

Background

Audit Plan

3. Audit NZ has provided Canterbury Regional Council (Environment Canterbury) with an Audit Plan for the Annual Report for the year ending 30 June 2020. This Audit Plan is attached to this report.
4. This Audit Plan outlines the audit risks and issues, audit process, reporting protocols, expectations and logistics relating to the upcoming audit.
5. Audit NZ staff continue to work with Council staff regarding the timing/location of audit fieldwork and signoffs to ensure overall statutory compliance. It is anticipated that the audit field work will commence 2 June and then 24 August. Council adoption is expected to occur in 22 October.
6. At the 13 August PARC the draft Annual Report financials will be provided for review and discussion. At the 1 October PARC the final Annual Report (subject to any final audit adjustments leading up to adoption) will be provided to PARC for recommendation to Council for adoption on 22 October 2020.
7. The senior Audit NZ team members are Julian Tan (Appointed auditor) and Debbie Bradfield (Audit Manager).

Audit Engagement Letter

8. The Auditor-General has appointed Julian Tan from Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audit of the Regional Council's financial statements and performance information
9. This letter outlines the terms of the audit engagement and the nature, and limitations, of the annual audit and the respective responsibilities of the Regional Council and Audit New Zealand for the years ending 30 June 2020 to 30 June 2022.
10. Audit NZ require receipt of this letter and the terms of the audit engagement by the chair of Canterbury Regional Council signing the engagement letter.

Audit Fee proposal letter for annual audit

11. The purpose of this proposal is to provide information on:
 - a. the statutory basis for the audit and how audit fees are set;
 - b. the entities covered by this proposal;
 - c. key members of the Audit NZ audit team;
 - d. the hours they plan to spend on the audit;
 - e. the proposed fees for the audit for the financial year ending 30 June 2020;
 - f. assumptions relating to the proposed audit fees, including what we are expected to do;

- g. what the OAG Audit Standards and Quality Support fee (previously OAG Overhead charge) provides;
 - h. certification required by the Auditor-General; and
 - i. Audit New Zealand commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.
12. Audit NZ require receipt of this proposal by the chair of Canterbury Regional Council counter-signing this letter.

Cost, compliance and communication

Financial implications

13. The 2019/20 budget had \$208,418 for staff time, goods and services and audit fees for the Annual Report included in the Regional Leadership portfolio under Long-Term Community Planning.
14. The 2019/20 Audit Fees is expected to be \$117,664 excluding GST.
15. The 2020/21 and 2021/22 Audit fees will be agreed at a future date.

Risk assessment and legal compliance

16. Specific details of the risks/issues are included in the Audit Plan. These risks and issues are the same as the previous year except for the Covid-19 impacts. The key areas are:
- a. Property, plant and equipment (PPE). Council re-values its PPE assets on a rotational three yearly basis. Valuation of property, plant and equipment is a risk due to the significance of the carrying values in the financial statements and the judgements involved in the valuation of these assets. This year the flood infrastructure assets will be revalued.
 - b. Water data project. The valuation of the Water data 2020 is a risk, due to the judgements involved in the valuation of these types of intangible assets.
 - c. Covid-19 impact. The audit will explore steps management have taken.
 - d. The risk of management override of internal controls. As there is an inherent risk in every organisation of fraud resulting from management override of internal controls, this is considered a risk on all audits.
17. In addition to the Council specific issues discussed above, Audit NZ will also focus on procurement, ethics and integrity and fraud risk.

Significance and engagement

18. As the Annual Report is a report on activities undertaken during the year, no consultation is required.

19. The audit of the Annual Report is not considered significant in terms of Council's Significance and Engagement Policy.

Consistency with council policy

20. There are no policy implications.

Communication

21. Following adoption of the 2019/20 Annual Report in October a copy of the report will be provided on Environment Canterbury website.

Next steps

22. June 2 – Interim audit begins to 29 June
23. June 18 – Council will approve Chair to sign the two Audit NZ letters discussed in this report
24. **August 13** – PARC will be provided with draft year-end financial result
25. August 24 – Final audit begins to 14 September
26. **October 1** – PARC will review Annual Report
27. **October 22** – Council adopt Annual Report
28. November 19 – Council will be provided with draft report on audit and areas to improvement for the next audit.

Attachments

1. C 273 Environ Canty 20 J Audit Plan [Finalised] [6.2.1 - 16 pages]
2. C 273 Environ Canty 20 J Audit Engagement Letter 2020-22 [6.2.2 - 14 pages]
3. C 273 Environ Canty 20 J Audit Proposal Letter 2020 to 2022 [6.2.3 - 9 pages]

File reference	[SharePoint link for this paper]
Peer reviewers	Tarsha Triplow, Team Leader Corporate Reporting David Perenera-O-Connell, Senior Strategy Manager

Audit plan

Canterbury Regional Council

For the year ending 30 June 2020

Audit plan

I am pleased to present to the Council our audit plan for the audit of Canterbury Regional Council (the Council) for the year ending 30 June 2020. The purpose of this audit plan is to discuss:

Risks and issues.....	2
Our audit process.....	7
Reporting protocols	11
Audit logistics	12
Expectations.....	13

The contents of this audit 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



Julian Tan
Appointed Auditor
12 May 2020

Risks and issues

Focus areas



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

Risk/issue	Our audit response
Property, plant and equipment	
<p>The Council periodically revalues its assets. PBE IPSAS 17, Property, Plant and Equipment, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The Council's policy is to revalue land, buildings and infrastructural assets every three years. Land and buildings were last revalued at 30 June 2019.</p> <p>In accordance with the Council's accounting policies, revaluation of infrastructural assets will be required to be revalued in the current financial year.</p> <p>The Council will need to demonstrate that the carrying values of these assets, as at 30 June 2020, are not materially different from their fair values. It is important to make this assessment at an early stage of the audit, in order to allow sufficient time for a revaluation to be performed.</p> <p>Valuation of property, plant and equipment is a risk due to the significance of the carrying values in the financial statements and the judgements involved in the valuation of these assets.</p>	<p>For asset classes which are revalued, our audit procedures will include review of the valuation reports, and assessment of the valuation methodology, source information, and key assumptions applied in the valuation. We will also confirm valuations comply with the requirements of applicable accounting standards, and valuation changes have been accounted for correctly.</p> <p>For assessments of the carrying value of asset classes which are not revalued, our audit procedures will include reviewing management's assessment for appropriateness, and compliance with applicable financial reporting standards, and reviewing underlying data and assumptions applied in assessments are reasonable.</p>
Water data 2020	
<p>The Water Data 2020 initiative transitioned to the Water Data programme on 1 August 2019. This programme will run for two years.</p> <p>The purpose of the Water Data programme is 'To transform the way the Council governs, monitors, manages and shares water data into an integrated whole system that enables them to understand their water data and manage their data and technology more efficiently.'</p>	<p>We will update our understanding of the programme and consider the adequacy of:</p> <ul style="list-style-type: none"> project governance and management structures; project management processes applied; and risk management practices. <p>We will also consider the adequacy of systems in place for recording costs associated with the</p>

Risk/issue	Our audit response
<p>The programme goal is the achievement of 'A real time, quality assured water data infrastructure that enables appropriate next generation water models including forecasting for Canterbury.'</p> <p>The valuation of the Water data 2020 is a risk, due to the judgements involved in the valuation of these types of intangible assets. We expect the council will need to prepare a formal assessment.</p>	<p>project. This includes reviewing the classification of expenditure on the project to make sure this has been accounted for in accordance with generally accepted accounting practice.</p> <p>We will also review the Council's assessment of whether there are any indicators of impairment, and the resulting accounting treatment if applicable.</p>
Impact of Covid-19 (Coronavirus) pandemic	
<p>On 11 March 2020, the World Health Organisation declared the outbreak of a coronavirus pandemic (Covid-19) and two weeks later the New Zealand Government declared a State of National Emergency. As a result New Zealand went into lockdown for several weeks. This lockdown response is unprecedented in recent history. A number of economic uncertainties have arisen which have the potential to negatively affect the Council's operations and financial performance.</p> <p>Covid-19 will impact the way in which the Council carries out its daily business. These impacts may affect:</p> <ul style="list-style-type: none"> • how the Council operates; • the way the Council accounts for transactions and reports on them in the financial statements; • the control environment across the Council; and • the financial and operational performance of the Council. <p>At a high level, we are aware that the Council and management have taken active steps to address the implications arising from Covid-19.</p> <p>Our office has published guidance for financial statement preparers on the impact of Covid-19 on public sector reporting entities that you may find useful. Refer to: https://auditnz.parliament.nz/good-practice/public-sector-reporting/bulletin-one</p>	<p>We will seek an understanding of the changes that are happening in the Council as a result of Covid-19, and then assess if any of these changes result in new risks or changes to the level of risks we had previously identified.</p> <p>The most effective way to understand the impact of Covid-19 will be to engage with you at the right time to understand what has, and could, change in your operations.</p> <p>The assessment of the risks of material misstatement at the financial statement level is also affected by our understanding of the control environment. In particular we would want to know the following:</p> <ul style="list-style-type: none"> • How is the Council participating in key decisions as a result of Covid-19? • Are there major changes in the operating characteristics of the Council? • How are management and the Council including Covid-19-related issues in the risk management processes? • Are management identifying and recording any additional Covid-19 related costs? <p>To facilitate the discussion, we would expect management to prepare an assessment of the impacts of Covid-19 including the items identified above. We would then review the assessment and discuss it with you.</p> <p>Given the potential significance of the impacts at the time we issue the audit opinion, we may also need to consider whether there is any impact on the audit opinion.</p>

Risk/issue	Our audit response
The risk of management override of internal controls	
<p>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.</p> <p>Management and staff should report fairly and objectively to enable informed decisions by interested stakeholders. In particular, management should review the methodologies used to calculate accounting estimates and judgements at balance date, such as accruals, provisions, impairments and fair value assessments to ensure they are appropriate and clearly defined.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias, particularly accruals, provisions, impairments and fair value assessments; • evaluating any unusual or one-off transactions, including those with related parties; and • reviewing the appropriateness and application of accounting policies to particular transactions including, for example, the treatment of costs as capital rather than operating expenditure and vice versa.

Other areas of audit focus

Areas of audit focus	Our audit response
Procurement	
<p>Effective procurement processes reduce the risk of challenges to procurement decision-making, help retain credibility with suppliers, and may decrease the cost of procurement of goods and services. An effective contract management system can also provide significant value to an entity throughout the lifecycle of contracts.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of current procurement and contract management practices; and • assess whether the Council's procurement policies and processes are up to date and appropriate.

Areas of audit focus	Our audit response
Ethics and integrity	
Ensuring that the public sector is effective and, above all, trusted, requires transparency, honesty and accountability. For that reason, ethics and integrity is an area of interest for the Auditor-General.	<p>We will assess whether:</p> <ul style="list-style-type: none"> the Council's control environment promotes transparency and ethical behaviour; members of the Council provide clear and consistent communication about expected behaviours; and the Council has controls and processes in place to mitigate the risks of unethical behaviour.

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

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 does 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, is 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 Council? 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.govt.nz/reports/fraud-reports.

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 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 Council'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.

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.

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 year-to-date transactions for expenditure and movements in property, plant and equipment. Completion of these tests earlier in the year should allow for more timely identification and resolution of errors.

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 the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and 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.

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. 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.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements we identify to an appropriate level of management.

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 representatives of the Council that specify the reasons why the corrections will not be made.

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:

- the 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 the Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the 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 the 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”.

Reports to Council



We will provide a draft of all reports to management (and Council) 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 Council.

As part of our final reporting to the Council, we will set out non-trivial unadjusted misstatements, along with management’s reasons why the adjustments have not been made.

As part of our continued focus on improving the efficiency of the annual reporting and audit process, we will also report adjusted misstatements in the report to the Council. The adjusted misstatements will include made to the first draft annual report received at the start of the audit.

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:

Julian Tan	Appointed Auditor
------------	-------------------

Debbie Bradfield	Audit Manager
------------------	---------------

Timetable

Our proposed timetable is subject to change due to the potential impact arising from the Covid-19 pandemic on audit staff access to the Council and its people as well as the consequential impact on changes to our staff availability over the course of the audit. We intend to discuss with management if our proposed timetable is significantly affected by this pandemic



Our proposed timetable is:

Interim audit begins	2 June 2020
Pre-final audit and valuation audit begins	29 June 2020
Draft annual report which includes the financial statements, notes to the financial statements and other information	24 August 2020
Final audit begins	24 August 2020
Final annual report incorporating all the amendments agreed to between us	14 September 2020
Verbal audit clearance given	21 September 2020
Draft summary annual report	21 September 2020
Audit opinion issued on annual report	22 October 2020
Audit opinion issued on the summary annual report	22 October 2020
Draft report to the Council issued	16 November 2020

Expectations



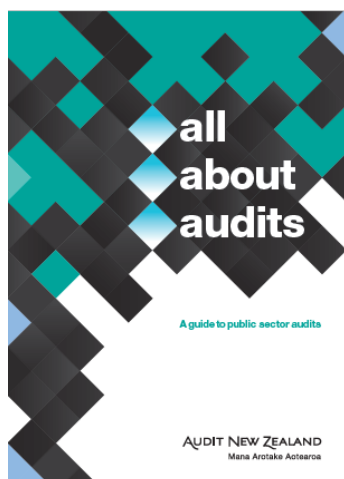
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

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. We have also published information to help explain the audit process:



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.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

www.auditnz.parliament.nz

Level 3, 335 Lincoln Road
PO Box 2
Christchurch 8140



7 May 2020

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

Jenny Hughey
Chair
Canterbury Regional Council
PO Box 345
Christchurch 8140

Dear Jenny

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 Canterbury Regional Council (the Regional Council), under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Julian Tan, 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 Regional Council’s financial statements and performance information. We will be carrying out these annual audits on the Auditor-General’s behalf, for the years ending 30 June 2020 to 30 June 2022.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Regional 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 Regional 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 Regional Council’s financial statements and performance information are free from material misstatement.

The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

Your responsibilities

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

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- 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 Regional Council for the purpose of the audit;
 - unrestricted access to Council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

The Regional Council's responsibilities extend to all resources, activities, and entities under its control. We expect that the Regional 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 Regional Council with delegated authority, to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred – regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The Regional 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 Regional Council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

The Regional 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 Regional Council:

- present fairly, in all material respects:
 - its financial position; and
 - its financial performance and cash flows for the financial year;
- 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 Regional Council:

- presents fairly, in all material respects, the performance for the financial year, including:
 - its performance achievements as compared with forecasts included in the forecast performance report 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.

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 Regional 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 Regional 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 Regional 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 Regional 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 Regional 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 Regional 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 Regional 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.

We will also issue a report to the Regional Council. This report communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Regional Council. Typically those matters will relate to issues of financial management and accountability. We may also provide other reports to the Regional Council from time to time. We will inform the Regional 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 contact me.

Yours sincerely



Julian Tan
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.

Signed _____ Date _____
Jenny Hughey
Chair
Canterbury Regional Council

Appendix 1: Respective specific responsibilities of the Council 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; • 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 forecasts included in the forecast performance report 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; • complies with generally accepted accounting practice in New Zealand. <p>We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements and performance information.</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
	<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> <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;

Responsibilities of the Council	Responsibility of the Appointed Auditor
	<ul style="list-style-type: none"> • all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and • uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p>
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 Regional Council; • enable you to monitor the resources, activities, and entities under your control; • enable the Regional 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 of the Council	Responsibility of the Appointed Auditor
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 Regional 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 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 of Regional 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 Regional 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>

Responsibilities of the Council	Responsibility of the Appointed Auditor
	<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 Regional Council has systems, policies, and procedures (appropriate to the size of Regional Council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of Regional 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 • 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 of the Council	Responsibility of the Appointed Auditor
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 Regional 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>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p>	<p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions. Depending on the circumstances, we may enquire whether you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p>

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

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.

7 May 2020

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

Ref: EN/LCA/02-0003

Jenny Hughey
Chair
Canterbury Regional Council
P O Box 345
Christchurch 8140

Copy: Murray Powell
Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington 60140

Dear Jenny

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

1 Introduction

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

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial year ending 30 June 2020 and reasons for any change. We will agree the fees for the financial years ending 30 June 2021 and 30 June 2022 at a future date;
- assumptions relating to the proposed audit fees, including what we expect of your Council;
- what the OAG Audit Standards and Quality Support fee (previously OAG Overhead charge) provides;
- certification required by the Auditor-General; and
- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

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

The audit of your Council is carried out under section 15 of the Public Audit Act 2001 (the Act), which states that “the Auditor General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited”.

Fees for audits of public entities are set by the Auditor General under section 42 of the Act. The Act requires the Auditor-General to make sure that audit fees are “reasonable” for both the auditors who complete the audits for the Auditor-General, and for each of the entities audited. The Auditor-General wrote to your Council recently letting you know that he has carefully considered the matter of annual audit fees for all Councils who do not currently have a contract in place. He has decided that for the 30 June 2020 audit, audit fees are to be held to a 1.5% increase over the agreed fee for the 30 June 2019 audit. This attempts to balance the very real cost pressures that your Council and his Office currently face. The Auditor-General also noted that he expects that there will be a range of effects of the COVID-19 pandemic that may require additional audit work, and that auditors will need to discuss recovery of costs for that with Councils in due course, once these costs are known.

The Auditor-General also advised that for a number of years there has been a significant and growing under recovery of audit fees across much of the local government sector, for a range of reasons. Because Parliament has indicated that it expects the cost of annual audits under the Act (including an OAG Audit Standards and Quality Support fee) to be funded by public entities, this is clearly not a sustainable position. It is also potentially creating a very real risk to maintaining consistent audit quality over time, which has been raised by audit regulatory bodies here and overseas.

Audit fees will, in the future, need to be increased to reflect the real costs. These increases will vary depending on the reasonableness of the current fee. So for the subsequent years of the contract, 2021 and 2022, your Council and I will in, due course, have the opportunity to discuss those real costs, and endeavour to reach agreement about reasonable fees that can be recommended to the Auditor-General for approval. The Auditor General, with assistance from the OAG, will directly set audit fees, but only if we fail to reach agreement.

To ensure that the level of audit effort required (and the reasons for it) are visible to your Council, this proposal includes an estimate of the total hours and indicative cost required to complete an efficient and quality audit of your Council (this is set out in sections 5 and 6). We expect to incur these hours in 2020, although the constrained fees will clearly not reflect the full cost of them.

3 Entities covered by this proposal

This proposal covers the audit of Canterbury Regional Council.

4 Key members of the audit team

Appointed Auditor	Julian Tan
Manager	Debbie Bradfield

5 Estimated audit hours

We estimate that the following hours will be required to carry out the 30 June 2020 audit (compared to the budgeted hours set out in your last Audit Proposal Letter (APL) and actual data from the previous financial year):

Audit team member	2019 budget	2019 actual*	2020
Appointed Auditor	44	40	50
Audit Manager	81	144	90
Other staff	443	634	540
Tax	8	8	1
Information Systems	35	24	35
Sector Specialist hours	1	1	7
Total audit hours	612	851	723

***Note** – actual hours are all hours incurred. These hours have not been adjusted to eliminate any hours that were due to auditor inefficiencies.

The overrun is in line with our expectation. The audit ran as expected and the team mix was similar to the previous years. The overrun is attributed to the changes in methodology over the past few years and the additional audit work required to comply with the methodology changes and the increased focus on quality.

5.1 Reasons for changes in audit hours

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

Reasons for changes in audit hours compared to estimated audit hours set out in previous audit proposal letter	2020
Sensitive expenditure: All councils operate in an environment where ratepayers and other stakeholders expect high levels of ethical behaviour and want more transparency over how this is managed. This means they need robust policies and processes in areas such as fraud, bribery and corruption, and sensitive expenditure. They also need to demonstrate that they manage these areas effectively.	5

Reasons for changes in audit hours compared to estimated audit hours set out in previous audit proposal letter	2020
The increased sensitivity and risk in these areas, which is also reflected in the OAG briefs to auditors, has flowed through to our audit and the work we do. In particular, we will now be undertaking additional testing of the Chief Executive and Chair/Mayor's expenses every year.	
<p>Asset valuations: funding challenges, combined with greater community awareness and expectations over the resilience and performance of core assets, have increased the importance of, and risks associated with, council's asset related practices such as continually improving its asset condition information and developing more advanced management practices. These in turn increase the complexity of council's asset revaluations and fair value assessments.</p> <p>We have increased the time required for this work because of the additional engaging with external experts and additional testing that needs to be performed due to the above.</p> <p>Our hours and fees are based on one revaluation for different class of assets on a rotational basis across a three year period and is incorporated into our overall hours.</p> <p>Any additional revaluations we are required to audit will be charged separately.</p>	16
<p>Rates: Recent court cases have highlighted the risks council faces in relation to its rating processes. Seemingly minor procedural or documentation errors have the potential to undermine council's major revenue stream. Council's increased risks have impacted on our approach to auditing Rates, and we now perform more testing on both individual rates and the information held in the RID.</p>	6
<p>Estimations and judgements: Significant accounting estimations, accruals and judgements are significant to the Council's financial statements and present a risk of material misstatement. As Council's knowledge of the underlying issues improves, these estimations and judgements become more complex and present a higher risk, which increases our required audit response.</p>	22
<p>Non-financial reporting: In the light of recent events, including natural disasters, the results of the Havelock North water enquiry, and the impacts of climate change, ratepayers and other stakeholders focus on local authorities' core services has increased. This has increased our assessment of risk in these areas which in turn has increased both the number of measures we identify as material and the amount of testing we do on these.</p> <p>In addition, the mandatory performance measures present a heightened risk to council's reporting due to the range of interpretation and non-compliance issues that have been identified across the sector in recent years. We have increased the time required for this work.</p>	6
Additional hours required to complete an efficient and quality audit of your Council. These hours have been absorb and are not included in this fee.	56
Total change in audit hours	111

6 Proposed audit fees

Our proposed fees for the 2020 audit (compared to budgeted and actual data from the previous financial year) is:

Structure of audit fees	2019 budget fees \$	2019 actual fees charged (*) \$	2020 \$
Net audit fee	106,216	106,216	107,809
OAG Audit Standards and Quality Support fee	9,414	9,414	9,555
Total audit fee (excluding disbursements)	115,630	115,630	117,364
Estimated disbursements	6,689	300	300
Total billable audit fees and charges	122,319	115,930	117,664
GST	18,348	17,390	17,650
Total (including GST)	140,667	133,320	135,314

*** Note** – The 2019 actual net audit fees charged were \$115,630, compared to our 2019 audit costs of \$132,912. These costs have not been adjusted to eliminate any matters arising from auditor inefficiencies.

The estimated cost of an efficient audit on a full recovery basis for your Council in 2020 is in the range of \$118,591 to \$128,591, and your audit fees are already close to that range. Other than a small adjustment over the next one or two years for that, we expect that fee increases, other than for cost inflation, will only be necessary for changes or growth in your Council, or in audit requirements.

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 fees. As set out in section 2, these fees have been held at a 1.5% increase over the agreed audit fee for 2019.

We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

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 Council's annual report (including financial statements and statements of service performance) will be subject to appropriate levels of quality review by you before being submitted to us for audit;
- your Council'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);
- there are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above; and
- there are no significant changes to the agreed audit arrangements that change the scope of, timing of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, including as a result of the effects of the COVID-19 pandemic, we will discuss the issues and potential recovery of costs with you and the OAG at the time. In order to minimise additional auditor time on the potential effects of COVID-19 on your financial statements and service performance information, the Council should ensure that it considers those potential effects as early as possible and discusses them with the appointed auditor to ensure "no surprises" to either party.

7.1 Exclusions

The proposed hours set out in section 5 and our fees do not include the potential impact of the following, which may affect your entity in 2020, 2021, and/or 2022, as we are unable to assess their impact at this time:

- The future impact of changes to accounting standards, including:
 - PBE IPSASs 34 to 38; and

- PBE FRS 48.
- Changes to auditing standards including; NZ AS 1, ISA (NZ) 315 and ISA (NZ) 540.
- The government's three waters review, including its announcement of a Crown Entity to regulate drinking water.
- Any future impact on the Council's reporting due to the re-introduction of the four well-beings into the Local Government Act in May 2019.
- The Productivity Commission's review of local government funding and financing.
- The impacts of future growth within the Council's area.
- The impacts of any new initiatives or funding sources related to either the Provincial Growth Fund or the Housing Infrastructure Fund.
- The impacts on any additional audit work required to deal with financial and auditing issues resulting from the COVID-19 pandemic.

8 What the OAG Audit Standards and Quality Support fees cover

Parliament has indicated that it expects the cost of annual audits under the Public Audit Act (including an OAG Audit Standards and Quality Support fees) to be funded by public entities.

The OAG Audit Standards and Quality Support fees partially fund a range of work that supports auditors and entities, including:

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

Appointed Auditors are required to return the OAG Audit Standards and Quality Support fees portion of the total audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

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

10 Conclusion

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

If you require any further information, please contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your Council, 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 Council as the agent of the Auditor-General.

Yours sincerely

Julian Tan
Appointed Auditor
Audit New Zealand

I accept the audit fees for the audit of the [number of] financial years as stated above.

Full name: Jenny Hughey Position: Chair

Authorised signature: _____ Date: _____

Entity name: Canterbury Regional 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: Julian Tan
Audit New Zealand
PO Box 2
Christchurch 8140

7. Public Excluded

Performance, Audit and Risk Committee (PARC) Report

Author	Vivienne Ong, Committee Advisor
Endorsed by	Catherine Schache, General Counsel

Meeting with the public excluded

- That the public be excluded from the following part of the proceedings of this meeting, namely:
 - 1.1 Kainga Infrastructure Expenditure
- The general subject of the matters to be considered while the public is excluded, the reason for passing this resolution and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
1.1 Kainga Infrastructure Expenditure report	That good reason exists for not discussing the matter with the public present and is not outweighed by the public interest.	Section 48(1)(a)

This resolution is made in reliance on section 48(1) 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 proceeding of the meeting in public are as follows:

- 1.1 Enable any local authority holding the information to carry on, without prejudice or disadvantage, commercial activities – Section 7(2)(h)*

That appropriate officers remain to provide advice to the Committee.

8. Notices of Motion

9. Extraordinary and Urgent Business

10. General Business

11. Questions

12. Next Meeting

13. Closure