

Audit plan

Environment Canterbury Regional Council

For the year ending 30 June 2023

Audit plan

I am pleased to present our audit plan for the audit of Canterbury Regional Council, known as Environment Canterbury (the Regional Council), for the year ending 30 June 2023. The purpose of this audit plan is to discuss:

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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.

Nāku noa, nā



Yvonne Yang
Appointed Auditor
31 May 2023

Audit risks and issues

Focus areas



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

| Audit risk/issue | Our audit response |
|--|---|
| Valuation of forestry assets | |
| <p>The reporting standard PBE IPSAS 27, <i>Agriculture</i>, requires biological assets, such as forestry assets, to be measured at their fair value less costs to sell.</p> <p>Because forestry valuations are subject to use of judgements and other factors, there is an inherent risk of significant error in arriving at the fair value for the forests. These judgements and factors include:</p> <ul style="list-style-type: none"> the prices for each grade of log, sources of information, volatility, price movements for the valuation purpose; the valuation discount rate, source for those rates and rationale for the choice; and uncertain factors that may have a material impact on value. <p>In the previous financial year, the Regional Council engaged Woodlands Pacific Consulting Limited to undertake the forestry assets valuation as at 30 June 2022.</p> <p>The complexity of the inputs and the methods used to value forestry assets make this an area of audit focus as well for the current year.</p> | <p>In response to this risk, we will:</p> <ul style="list-style-type: none"> Review the accounting treatment of the forestry assets and related financial statement disclosures to ensure compliance with accounting standards. Assess the appropriateness of the valuation incorporated in the financial statements as at 30 June 2023, including the validity of the underlying assumptions. Seek representation from the independent valuer regarding their independence, competency and the significant assumptions involved in the valuation. As there is heightened pressure to meet climate goals of the country, we will consistently check for any changes of regulations in relation to ETS arising from harvesting activities. |
| Fair value assessment of property, plant and equipment (non-revaluation year) | |
| <p>For those assets that the Regional Council is not planning to revalue, the Regional Council should perform a fair value movement assessment (assessment) to determine whether there is a significant difference between the fair value and the carrying value. Where the estimated difference is significant a revaluation may be necessary.</p> <p>An assessment should:</p> | <p>We will review the reasonableness of Regional Council’s assessment including the appropriateness of the assumptions used in the assessment.</p> <p>If the movement of the assets individually or in combination with other asset classes is significant the Regional Council may need to complete a revaluation.</p> |

| Audit risk/issue | Our audit response |
|--|---|
| <ul style="list-style-type: none"> factor in local cost information; utilise relevant and reliable price movement indicators; and involve consulting with valuers, if necessary. <p>Alternatively Regional Council could engage valuers to assist in preparing a fair value assessment.</p> | <p>In certain circumstances it may be acceptable to make an adjustment based on the desktop revaluation.</p> |
| Asset impairment considerations | |
| <p>In accordance with PBE IPSAS 21, Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash-Generating Assets, at each reporting date management must assess whether there is any indication that an asset may be impaired. If management identifies any indication of an impairment, then they must estimate the recoverable service amount of the asset.</p> <p>Assets are required to be assessed for indicators of impairment on an annual basis.</p> <p>Irrespective of whether there are any indications of impairment, intangible assets not yet available for use (such as work in progress) and intangible assets with indefinite useful lives must be tested for impairment at least annually.</p> <p>The Regional Council will need to complete the necessary assessment of impairment of assets (as above). In addition, intangible assets not yet available for use (such as work in progress) and intangible assets with indefinite useful lives must be tested for impairment at least annually.</p> | <p>We will:</p> <ul style="list-style-type: none"> review the impairment assessment; evaluate the reasonableness of the significant assumptions; evaluate how management has addressed estimation uncertainty; and reperform calculations made by management. |
| 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.</p> <p>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.</p> <p>Auditing standards require us to treat this as a risk on every audit.</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; and evaluating any unusual or one-off transactions, including those with related parties. |

| Audit risk/issue | Our audit response |
|---|---|
| New accounting standard - Adoption of PBE FRS 48, Service Performance Reporting | |
| <p>PBE FRS 48, <i>Service Performance Reporting</i>, replaced that part of PBE IPSAS 1, <i>Presentation of Financial Statements</i>, that deals with service performance reporting requirements and is effective for annual reporting periods beginning on or after 1 January 2022, that is, for the Regional Council, it is for the year ending 30 June 2023.</p> <p>The objective of the standard is “to establish principles and requirements for an entity to present service performance information that is useful for accountability and decision-making purposes in a general purpose financial report”. PBE FRS-48 requires an appropriate and meaningful mix of performance measures and/or descriptions, including, where appropriate, measures of both the goods and services provided and of what has been achieved in the Council’s areas of responsibility.</p> <p>In addition, PBE FRS 48 imposes additional disclosure obligations on entities. For example, paragraph 44 requires an entity to “disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information reported in accordance with this standard that are relevant to an understanding of the entity’s service performance information”. Further if the Regional Council changes what it reports as service performance information compared to the previous year, then PBE FRS 48 requires the Regional Council to explain the nature of the changes and their effect.</p> | <p>We will review Regional Council’s compliance with the new standard.</p> <p>We are providing a PBE FRS 48, <i>Service Performance Reporting</i> checklist to the Regional Council to perform a self-review.</p> |

Our areas of interest in the local government sector

As well as the risks noted above, there are also areas of interest common to the local government sector. The table below outlines our areas of interest for this year’s audit. The left-hand column describes each matter and why we are interested in it. In the right-hand column, we describe how we plan to address each matter during the audit.

| Other areas of audit focus | Our audit response |
|---|---|
| Climate change | |
| <p>The Climate Change Response (Zero Carbon) Amendment Act 2019 (the Zero Carbon Act) came into effect in November 2019. Under the Zero Carbon Act the Minister for Climate Change and the independent Climate Change Commission have the power to request information from organisations that provide essential public services in New Zealand. This information will then be used to inform risk assessments and to develop the National Adaptation Plan.</p> <p>The Regional Council is one of the organisations requested to provide the information.</p> | <p>We have obtained an understanding in the prior year audit. For the current year, we will review any changes related to the following:</p> <ul style="list-style-type: none"> • the Regional Council’s response to the information requests by the Ministry for the environment; • the Regional Council’s plan to address climate change impacts, with a focus on its approach to climate change assumptions and disclosures in the statement of service information; and • the Regional Council’s plan to report the greenhouse gas (GHG) emission to the Canterbury communities as part of the Regional Climate Action Planning process to be delivered in the 2024-34 long-term plan. <p>We will assess the reasonableness of the climate related disclosure. If GHG emissions are reported in audited performance information, then the emissions measure will be subject to audit procedures.</p> |
| Prudent expenditure decisions | |
| <p>We expect all public entities to apply several principles to expenditure decisions, including that the expenditure has a justifiable business purpose, preserves impartiality, is made with integrity, is moderate and conservative in respect of the circumstances, and is made transparently.</p> | <p>We will remain alert to public sector concerns, including issues and risks about effectiveness and efficiency, waste, and a lack of probity or financial prudence. This means looking at some transactions or other arrangements in more detail to ensure expenditure is in line with the public sector principles.</p> <p>Aside from specific testing across a sample of sensitive transactions, this will also involve making certain enquiries of the Council, management, and staff, and maintaining awareness of public sector concerns throughout our audit work.</p> |

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 from fraudulent reporting, and misstatements from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Board, with assistance from management. We will discuss the following questions with you:

- What role does the Council play with 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 the 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.parliament.nz/reports/fraud-reports.

Our audit process



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



We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of the Regional Council, its business, and the environment it operates in.



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.



We update our understanding of internal controls relevant to the audit. This includes review of the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is performed 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.



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



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



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

New auditing standard

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

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

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

Prioritising higher risk work to ensure an efficient year-end processes

To ensure the year-end annual report and audit thereof are efficient, the Regional Council should prioritise their work to ensure higher risk areas and those that involve significant management judgment are planned to be ready for auditing as soon as possible. Timelines for this information should be agreed with us early. Delays in providing this information to us could impact our ability to resolve technical issues late in the audit process.

Examples of areas that typically involve management and auditor judgment include, and should be resolved early include:

- valuation of forestry assets;
- fair value assessments and revaluations of property, plant and equipment held at fair value;
- impairment assessments for property, plant and equipment and intangible assets;
- provision estimates;
- contingent liabilities; and
- financial assets or liabilities held at fair value.

Materiality

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

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

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

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

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

Financial statements materiality

For planning purposes, we have set **overall materiality** for the financial statements at \$118,500,000 based on budgeted total property, plant and equipment. This is subject to change once the actual results for the current year are available. For this audit we are only applying this overall materiality to the fair value of property, plant and equipment.

| | |
|---------------------------|---------------|
| Overall materiality | \$118,500,000 |
| Specific materiality | \$7,300,000 |
| Clearly trivial threshold | \$365,000 |

For this audit we have set a lower, **specific materiality** of \$7,300,000 for all items *not* related to the fair value of property, plant and equipment. A lower specific materiality is also determined separately for some items due to their sensitive nature. For example, a lower specific materiality is determined and applied for related party and key management personnel disclosures.

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

We will report all uncorrected misstatements to the other than those that are **clearly trivial**. We consider misstatements of less than \$365,000 to be clearly trivial unless there are qualitative considerations that heighten its significance. We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from management and the Council on the reasons why the corrections will not be made.

Misstatements

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

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

Materiality for service performance information

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

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

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

| Material measure | Materiality |
|---|--|
| <p>Level of Service (LoS) 27: Provide flood alerts and warnings when trigger levels are exceeded</p> <p>27.1 Respond to exceedance of trigger levels.</p> | 5% of result. |
| <p>LoS 26: Maintain flood protection and drainage infrastructure to agreed standards, while considering broader outcomes</p> <p>26.1 Manage flood protection and drainage infrastructure in accordance with Asset Management Plans and desired broader community outcomes.</p> <p>Publish an annual report on scheme condition, for all schemes in accordance with relevant Asset Management Plans.</p> | Quantitative materiality is not applicable. The reported result is to be qualitatively consistent with supporting information. |
| <p>LoS 29: Deliver quality, cost-effective public transport services that meet the needs of the community and results in increased patronage</p> <p>29.1 To provide quality public transport services for customers.</p> <p>Ensure ≥95% of passengers are satisfied or better with the overall service.</p> | 5% of result. |
| <p>LoS 2: Monitor and provide accurate and timely State of the Environment data for Canterbury, for use by decision makers and the community</p> <p>2.3 Ensure data collected is fit for purpose.</p> <p>Assess each monitoring network at least once every 10 years.</p> | Quantitative materiality is not applicable. The reported result is to be qualitatively consistent with supporting information. |
| <p>LoS 35: Deliver efficient and effective consenting and compliance monitoring and enforcement services to achieve the sustainable management of natural resources as set out in the purpose of the Resource Management Act 1991 (RMA)</p> <p>35.1 Process resource consent applications in a timely manner.</p> <p>Process ≥ 95% of resource consent applications in accordance with RMA statutory timeframes.</p> | 5% of result. |

During the last year's audit, we have identified a number of issues in relation to the performance measures and discussed how good might look like in the Report to the Council. We will assess if management have made any improvement in the current year's audit.

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 we consider information and in forming conclusions.

Exercise of 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.

Enhancing year-end processes

Substantive audit procedures are traditionally performed after the year-end. We recognise this can heavily impact the finance team and others involved in the audit process.

We will work with management to obtain the information required at the right time.

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 the Council



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

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

Audit logistics

Our team



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

Our senior audit team members are:

| | |
|------------------|-----------------------------------|
| Yvonne Yang | Appointed Auditor |
| Dieter Rohm | Information System Audit Director |
| Laura Song | Audit Manager |
| Kerstine Vergara | Audit Supervisor |

Timetable



Our proposed timetable is:

| | |
|---|------------------|
| Planning (for 1 week period) | 22 May 2023 |
| Interim audit begins (for 1 week period) | 12 June 2023 |
| Draft financial statements and performance information available for audit (including notes to the financial statements) with actual year-end figures | 11 August 2023 |
| Annual report available, including any Chair and Chief Executive’s overview or reports | 14 August 2023 |
| Final audit begins | 14 August 2023 |
| Final financial statements available, incorporating all the amendments agreed to between us | 1 September 2023 |
| Summary annual report available for audit | 1 September 2023 |
| Verbal audit clearance given | TBC |
| Audit opinion issued for the annual report and summary report | TBC |
| Draft report to the Council issued | TBC |

AuditDashboard

We use AuditDashboard, our online portal, to transfer files between your employees and Audit New Zealand.

The use of AuditDashboard makes it easy to fulfill requests. Real time status updates provide greater visibility to everyone and help to keep everyone organised and on the same page.

Working remotely

During the previous audits from 2021, we completed some of the audit work remotely. Based on our experience we found that the Regional Council has good systems and processes in place to facilitate any future off-site work by us.

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

Expectations



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

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

We expect that:

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

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

Health and safety



The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management, to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes provision of 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 advice of emergency evacuation procedures and how to report any health and safety issues.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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