

Report to:	FINANCE, AUDIT & RISK COMMITTEE – PUBLIC EXCLUDED
Date:	24 October 2023
Subject:	AUDIT OF THE ANNUAL REPORT FOR THE 2023 FINANCIAL YEAR
Prepared by:	S Poulsen - Finance Manager
Input sought from:	P Kearney, Senior Manager Corporate Services
Authorised by:	W Doughty, Chief Executive

1. PURPOSE

The purpose of this report is to update the Finance, Audit and Risk Committee on progress with the audit of the Annual Report, and issues raised by Audit New Zealand.

2. RECOMMENDATION

It is recommended that the Finance, Audit & Risk Committee:

- a) Receive this report for information.
- b) Authorise the Chief Executive Officer to determine the release of this public excluded report.

3. SUMMARY

3.1 Overall Progress

The final audit officially commenced on 18 September, with draft financial statements available (including notes to the financial statements and all workpapers provided) on 11 September. The majority of the audit has been conducted remotely, however two auditors were onsite for the week of 9 October.

A second draft has been provided on 17 October, which include consolidated accounts for the Kaikōura Enhancement Trust and Innovative Waste Kaikōura Ltd.

The auditors have indicated that further amendments will be necessary, subject to resolution of the matters raised below.

3.1.1 Councillor remuneration – a breach of legislation

Audit have identified a breach of the Local Government Members (2022/23) Determination 2022 (the LGMD), as determined by the Remuneration Authority, which sets maximums for the Mayor and Councillor annual remuneration. The calculation that was made after the election of October 2022 was correct for the annual amount, but the backpay that was paid to the Councillors in January 2023 did not deduct the amount that they had already been paid.

The Chief Executive has raised this with the Mayor and Councillors, and they have been given three options for repayment to individually suit their personal circumstances over varying time periods. The final numbers relating to the overpayment are still be worked through with Audit at the time of writing. Depending on the repayment option chosen by each Councillor we will need to disclose this for the annual reports over the length of the longest repayment period.

3.1.2 Related party disclosure

There is an invoice that has yet to be issued to Encounter Kaikōura Ltd, being \$158,000 plus GST for their share of agreed costs to reinstate their jetty at South Bay following the earthquake. The actual cost to reinstate the jetty was \$283,175.

The auditors have identified that, because Lynette Buurman is both a director of Encounter Kaikōura Ltd and a director of Innovative Waste Kaikōura Ltd (at 30 June 2023), there needs to be a related party disclosure around the un-invoiced amount.

The actual disclosure is still to be clarified at the time of writing.

3.1.3 Qualified opinion remains over Statements of Service Provision

While improvements have been made to the recording of times taken to attend and resolve three-waters call outs, insufficient progress has been made to provide the actual time taken for reporting in the Council's activity statements. Most of the mandatory performance measures required by the Local Government Act (2002) are still stated as incomplete or not available, in the Annual Report.

At the time of writing this report, this information has still not been made available on a monthly basis to give assurance that this issue has been resolved.

3.1.4 Landfill provision

The landfill provision attempts to state the costs of landfill closure that are expected to occur in the future, discounted to net present value using multi-factored discount and inflation rates. The provision was estimated using costs provided by an internal engineer. The auditors have questioned the costs because they were estimates developed earlier in 2019/2020 were used for the 2022 Annual Report, and that the costs should be adjusted over and above standard inflation noting the significant increases in cost of materials during this time. The Senior Manager Operations has now reviewed the costs and has determined that the costs should be lower because some of the landfill capping has been completed as part of the transfer station development.

The current provision of \$1,418k is likely to reduce to \$591k, pending agreement from Audit.

3.1.5 Harbour valuations

The South Bay and Wakatu Quay harbour assets were valued for the first time for this Annual Report, having been stated at deemed cost in previous years. The valuations resulted in significant increases in value, and a restating of some assets to identify more clearly what they are. Audit have now required that those assets be treated as "found" assets and their carrying value be brought into the accounts through the P&L rather than the Asset Revaluation Reserve. They also have a range of questions being asked of the valuer, Marsh Ltd, as to assumptions underpinning the valuations.

At the time of writing, the harbour valuations and our accounting treatment of them have not been given the all clear.

3.1.6 Kaikōura Enhancement Trust

It has recently been resolved to progress the winding up of the Kaikōura Enhancement Trust, preferably before 31 December 2023 (this would ensure that another audit is not required, although this is also yet to be confirmed). The Kaikōura Enhancement Trust is, however, listed as a strategic asset in the Council's Significance & Engagement Policy, which requires the Council to ensure that it complies with the special consultative requirements of the Local Government Act before the Trust can be wound up.

This means that statement of proposal must be published and made available for public feedback for not less than one month, before hearing submitters and reaching a decision on the matter.

In the meantime, the Annual Report will require a going concern disclosure about the Trust.

3.1.7 PBE IPSAS 41 additional disclosures for financial instruments

A new financial reporting standard, PBE IPSAS 41 *Financial Instruments*, supersedes both PBE IFRS 9 *Financial Instruments* and PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. The Council is now required to comply with PBE IPSAS 41 and the main changes between PBE IPSAS 29 and PBE IPSAS 41 are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected credit losses, which may result in earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks (the Council has no hedging instruments).

The net effect of the disclosure is a full recalculation of what was previously known as doubtful debts, or provision for impairment of receivables, to a new “expected credit loss (ECL)” model. This is likely to reduce the provision for impairment from \$930k to \$846k, we await Audit confirmation before we make these changes in the accounts.

3.1.8 PBE FRS 48 additional disclosures for service performance reporting

Reasonably substantial changes are now required by the new PBE FRS 48 *Service Performance Reporting*, including more contextual information about why the Council exists, the judgements used to select performance measures and how they are presented, and how the Council will contribute to community outcomes. While the Annual Report does contain a good deal of the required information, Audit have now requested that each performance measure in the group of activities section include the community outcome and how the Council will aim to achieve that outcome.

Those changes have yet to be made to the Annual Report at the time of writing.

3.2 Adoption of the Annual Report

While it is still the intention for the Council to adopt the Annual Report at the 25 October meeting, given the enormity of the changes still required and for Audit to then sign off on those changes, the adoption date of 31 October seems more likely. We will continue to strive for 25 October sign off.

4. FINANCIAL IMPLICATIONS AND RISKS

The audit of the Annual Report has an important role to play in transparency and accountability to the Kaikōura community.

5. COMMUNITY OUTCOMES SUPPORTED

The work is in support of all community outcomes.



Community

We communicate, engage and inform our community



Development

We promote and support the development of our economy



Services

Our services and infrastructure are cost effective, efficient and fit-for-purpose



Environment

We value and protect our environment



Future

We work with our community and our partners to create a better place for future generations

6. SIGNIFICANCE OF DECISION

This report is for information only and so it is not considered significant in terms of Council’s Significance and Engagement Policy.

7. RELEVANT LEGISLATION

The Local Government Act 2002 states that a local authority should ensure prudent stewardship and the efficient and effective use of its resources in the interests of its district or region.

8. COMMUNITY VIEWS

No community views were sought in relation to this report.