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Taupo District Council

Financial & Rating Analysis Project – Final Report

16 August 2019

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Anthony Byett
Chairman of the Audit and Risk Committee
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16 August 2019

Final Report - Services In Relation To The Financial and Rating Analysis Project for Taupo District Council

Dear Anthony

We are pleased to provide you with our **final report** that provides a summary of our key findings from our internal audit relating to the Financial and Rating Analysis Project.

This report was prepared in accordance with the terms and conditions set in our engagement letter dated 20th March 2019 and should be read in conjunction with the key terms of business, restrictions and disclaimers included in this report. Our report has been prepared to summarise work completed for the August 2019 Audit and Risk Committee meeting. We have identified some areas where further analysis is required. Any additional work would be performed in a next stage of this project if required. Accordingly, the findings contained in this report may differ upon further analysis.

Please do not hesitate to contact me if you have any questions or require further assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Dixon', written in a cursive style.

John Dixon
Partner

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Section 1

Scope and Approach

Scope and Approach

PwC has been engaged by Taupo District Council to perform a Financial and Rating Analysis over the funding available to the district and distributions made over the past ten years, with particular focus on Turangi.

The engagement includes the following areas:

- Specific tests over the excel Models (hereafter Models and spreadsheets), including integrity, accuracy and completeness checks
- Analysis over the reasonableness of assumptions made within the Model and spreadsheets provided
- Assessment of the input sources into the Models and spreadsheet

We set out below the Objectives and Approach for this engagement.

Objective

1. To perform a number of specific tests over the excel Models designed to identify any factors that could impact on the mathematical integrity of the Model.
2. To assess the input sources into the Model including procedures to ensure the completeness, accuracy and validity of data inputs.

Approach

Our approach is as follows:

- Gain an understanding of the development process for the Model through review of specification documentation and / or inquiry with management.
- Integrity and arithmetical checks, including internal consistency and application of assumptions.
- Assess the design of the Model.
- Gain a high-level understanding of Model data inputs.
- Assess how management select Model data input sources, including practices to ensure consistency of Model data input across periods.
- Agree underlying assumptions used in splitting revenue and/or expenditure between Taupo and Turangi to supporting documentation.
- Assess the scope and robustness of quality assurance checks completed by the Council over Model data inputs.
- For a sample, perform detailed testing including a comparison of the total value of data input to source documents and understanding of amendments made.
- Assess the presentation of the results of the revenue and expenditure split between Taupo and Turangi.

Section 2

Executive Summary – Final Report

Executive Summary – Final Report

This final report was prepared in accordance with the terms and conditions set in our engagement letter dated 20th March 2019 and should also be read in conjunction with the key terms of business, restrictions and disclaimers included in this report. Our report has been prepared to summarise work completed for the August 2019 Audit and Risk Committee meeting. We have identified some areas where further analysis is required. Any additional work would be performed in a next stage of this project if required. Accordingly, the findings contained in this report may differ upon further analysis.

We note that Taupo District Council approved a change to the capture of financial information from specific wards to District wide in FY13 with further aggregation in FY18. As a result an “allocation” of District wide revenue and expenditure is made on an 80/20 basis, whereby 20% of the “District” revenue and costs are attributed to Turangi. The District costs comprise operating expenditure and overheads. In the absence of actual allocations, an allocation on a percentage basis is not unreasonable, particularly when allocating overheads.

Based on the results of our testing to date the allocation basis of 80/20 may be appropriate. However, we would observe that in the last 3 years, direct operating expenditure as a percentage of total direct expenses is running closer to 19%. Consideration should be given to whether 81/19% allocation is more reflective of actual costs. A 19% allocation in FY17, FY18 and FY19 still results in a deficit for Turangi where costs exceed revenue, albeit at lower levels.

The further analysis required is as follows:

- Operating expenditure (OPEX) – in relation to “District” OPEX we require further information as to whether it is “District” or is specific to Turangi or Taupo.
- Capital expenditure (CAPEX) – where CAPEX isn’t currently allocated to Turangi or Taupo, we require further information as to whether it should be allocated or does in fact relate to the District.

Note that above analysis may have an impact on the appropriateness of the 80/20 allocation.

We have performed checks back to underlying systems and information. In addition, we have performed integrity and arithmetical checks. However, this work will need to be updated should we proceed to a second stage.

Section 3

Our findings

Financial Summary – FY18 & FY19

For each year, there has been a funding shortfall after a 20% allocation of district costs where the expenditure incurred in relation to Turangi has exceeded the revenues collected.

	2017/18			2018/19		
	Turangi Direct	Share of District 20%	Turangi Total	Turangi Direct	Share of District 20%	Turangi Total
Revenue (\$'000)						
Rates Revenue	10,680		10,680	11,060		11,060
Subsidies and grants	0	1,065	1,065	0	836	836
Development and financial contributions	0	50	50	34	115	149
Fees and charges	277	772	1,049	275	872	1,147
Finance revenue	0	626	626	0	758	758
Other revenue	0	347	347	0	950	950
Total Revenue	10,957	2,860	13,817	11,369	3,531	14,899
Expenses (\$'000)						
Personnel costs	341	3,193	3,534	371	3,357	3,728
Depreciation and amortisation expense	1,802	2,103	3,906	1,907	2,279	4,186
Finance costs	581	483	1,064	618	457	1,076
Other expenses	3,412	2,840	6,252	3,742	2,992	6,734
Total Operating Expenses	6,137	8,620	14,757	6,638	9,086	15,724
Net Surplus/(Deficit)	4,820	(5,760)	(940)	4,730	(5,555)	(825)

Source: Financial Statements by Ward 2013-19 spreadsheet

- Cost allocation per ward was changed to district wide in FY13, and further aggregated in FY18.
- Council has applied a 20% allocation of district costs to the Turangi ward as a proxy for actual costs and overheads attributable to Turangi. Examples of overheads include central personnel costs and environmental management (including lake, forestry and animal). District actual costs include libraries, stormwater systems, emergency services and parks.

Financial Summary – FY18 & FY19 (cont)

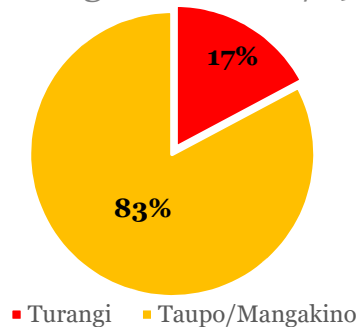
For each year, there has been a funding shortfall after a 20% allocation of district costs where the expenditure incurred in relation to Turangi has exceeded the revenues collected.

- The 20% allocation of district revenues and expenses is based on an assumption applied by management in the absence of specific cost centre allocations to individual regions. This is based on the specific allocation basis prior to changing to a District approach. Further analysis is required to assess the reasonableness of this assumption.
- We note per slide 14 that direct operating expenditure has reduced to 19%. Adjusting the allocation down from 20% to 19% in FY17, FY18 and FY19 still results in a deficit for each of those years.
- FY 13 to FY 17 analysis is contained in Appendix 1.

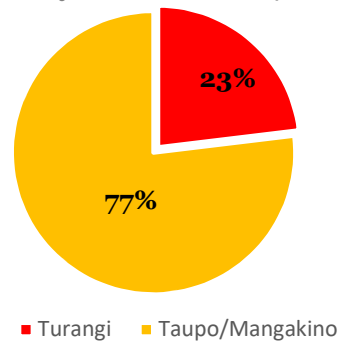
Rates Revenue

In 2018/19, Turangi residents represented 23% of all rate payers for the financial year, however only contributed 17% of the total rates revenue collected.

Proportional Dollar Rates Collected per Region for 2018/19



Proportional Number of Rate Payers for 2018/19



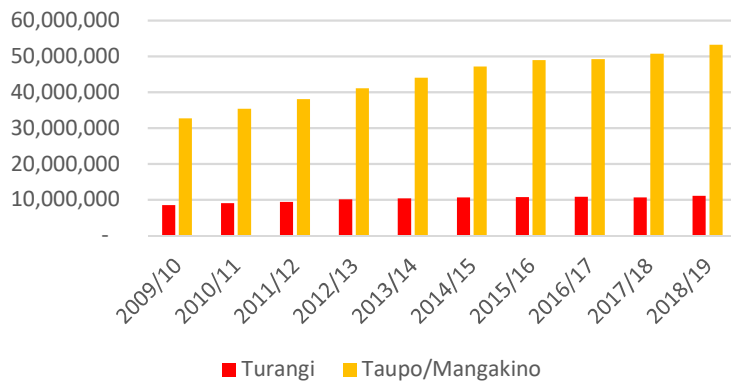
- In FY19, \$11m of rates revenue was collected from the Turangi residents, representing 17% of the total rates collected (refer page 10 for full table of rates collected).
- The proportion of Turangi rate payers per number is higher than the dollar proportion, indicating that the value of rates paid by Turangi residents is lower than those paid by Taupo and Mangakino (hereafter referred to as Taupo) residents.
- Rates collected by utilities (Transpower, Chorus, The Line Company, Unison) cannot be reliably allocated to specific regions **without further analysis**, therefore have been excluded from the adjacent graphs. The exclusion of these amounts does not have a material impact on the proportions.

Source: TDC Rates for ten years FY10-FY19 spreadsheet

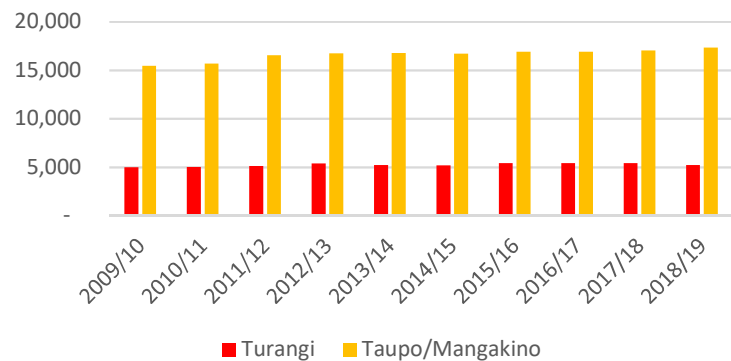
Rates Revenue (cont)

Rates collected in the Taupo region have significantly increased over the ten years as a result of property development, increasing both the number of ratepayers and valuation of properties.

Historic Trend of Rates Collected per Value (excl. utilities)



Historic Trend of Number of Rate Payers (excl. utilities)



Year	Turangi %	Turangi \$'000	Taupo %	Taupo \$'000
2009/10	20.6%	8,490	79.4%	32,726
2010/11	20.4%	9,075	79.6%	35,385
2011/12	19.8%	9,399	80.2%	38,087
2012/13	19.8%	10,135	80.2%	41,083
2013/14	19.2%	10,429	80.8%	43,998
2014/15	18.4%	10,618	81.6%	47,128
2015/16	18.0%	10,769	82.0%	48,922
2016/17	18.0%	10,803	82.0%	49,223
2017/18	17.4%	10,680	82.6%	50,737
2018/19	17.2%	11,060	82.8%	53,215

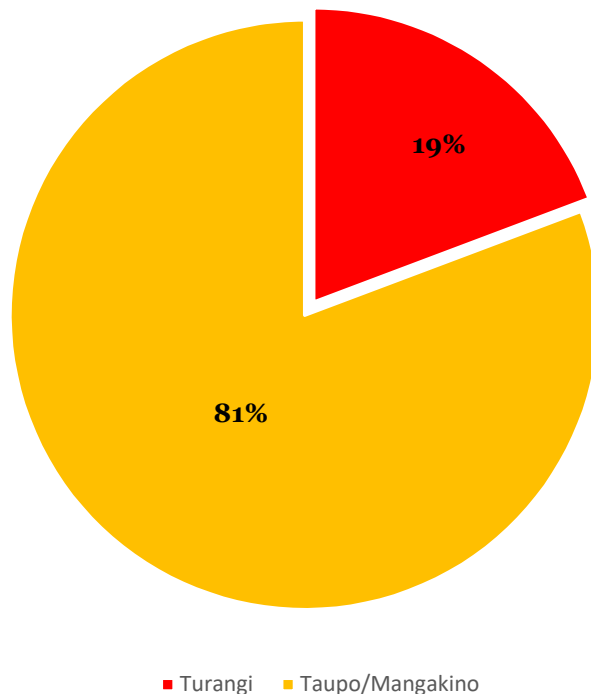
- Historically, the proportion of rates collected by Turangi residents has decreased relative to rates collected from the Taupo region, from 20.6% in 2010 to 17.2% in 2019, as a result of increasing property values in the Taupo region.
- The number of ratepayers in Taupo has increased over the ten years while Turangi ratepayers has remained relatively stable during the same period, with a small decline in FY19.

Source: TDC Rates for ten years FY10-FY19 spreadsheet

Operational Expenditure

The proportion of operational expenditure allocated directly to Turangi (19%) is higher than the proportion of total rates collected (17%) for the region.

Proportional OPEX Spend Specifically Allocated per Region for 2018/19 (excl. District OPEX)



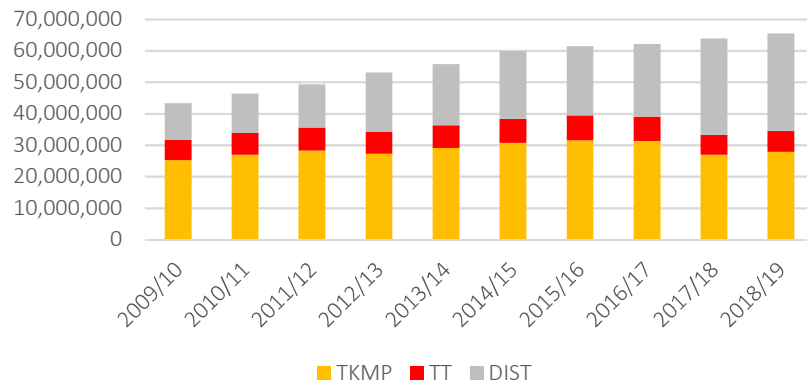
- In FY19, \$6.6m representing 19% of specifically allocated expenditure related to the Turangi region (refer page 12 for full table of specifically allocated OPEX).
- District OPEX relates to expenditure impacting on the wider region. This expenditure cannot be reliably allocated to individual regions **without further analysis**. This expenditure, to the value of \$31m in 2018/19, has been excluded from the adjacent graph.
- Management have elected to allocate District OPEX to the regions based on an 80%/20% split. **Further analysis** is required to whether this allocation is reasonable given the split of specifically allocated costs shown (81%/19%) or a different %.
- Several of the specific allocations between Turangi and Taupo in the last two financial years need **further analysis** due to manual adjustments.

Source: TDC Rates Reqmt for ten years FY10-FY19 spreadsheet

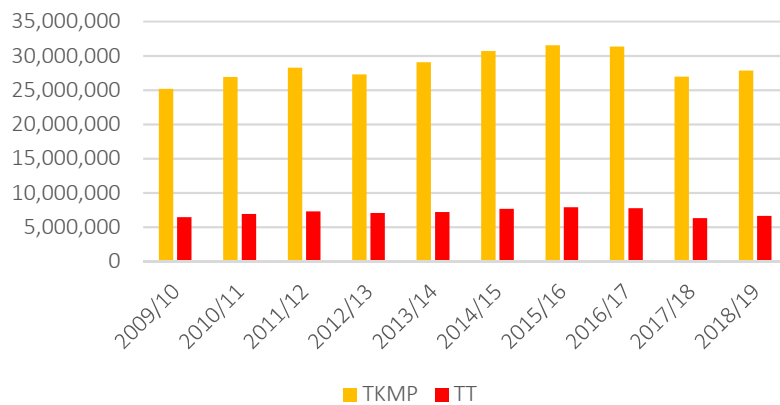
Operational Expenditure (cont)

The proportion of District OPEX has increased historically due to an aggregation of cost centres that are now allocated to the District as a whole. This expenditure cannot be reliably allocated to specific regions **without further analysis**.

OPEX Spend (incl. District unallocated)



OPEX Spend (excl. District)



Year	Rates %	Rates \$'000	OPEX %	OPEX \$'000
2009/10	20.6%	8,490	20.4%	6,460
2010/11	20.4%	9,075	20.4%	6,914
2011/12	19.8%	9,399	20.5%	7,287
2012/13	19.8%	10,135	20.5%	7,033
2013/14	19.2%	10,429	19.8%	7,198
2014/15	18.4%	10,618	20.0%	7,658
2015/16	18.0%	10,769	20.0%	7,884
2016/17	18.0%	10,803	19.8%	7,740
2017/18	17.4%	10,680	18.9%	6,297
2018/19	17.2%	11,060	19.3%	6,653

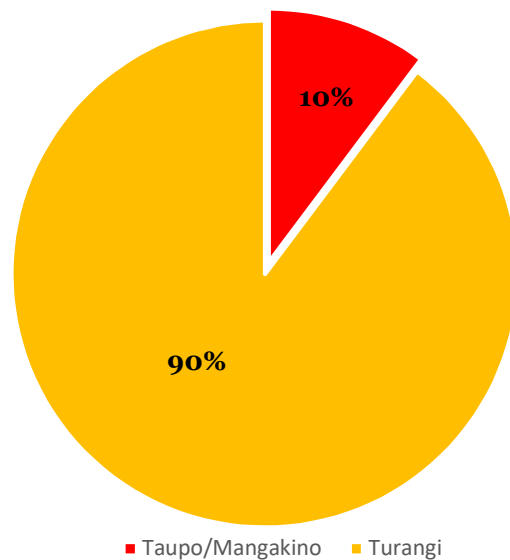
- Rates collected from Turangi has increased historically, however specifically allocated OPEX has not increased relatively due to more costs being allocated to District-wide cost centres.
- In FY19, Turangi rate revenue collected exceeded specifically allocated OPEX by \$4.4m. **Further analysis** is required over this.

Source: TDC Rates Reqmt for ten years FY10-FY19 spreadsheet

Capital Expenditure

CAPEX is incurred on an as needed basis, primarily funded by external debt and other funding sources. Historically, the majority of specifically allocated CAPEX has been spent in the Taupo region.

Proportional CAPEX Spend per Region for
2018/19



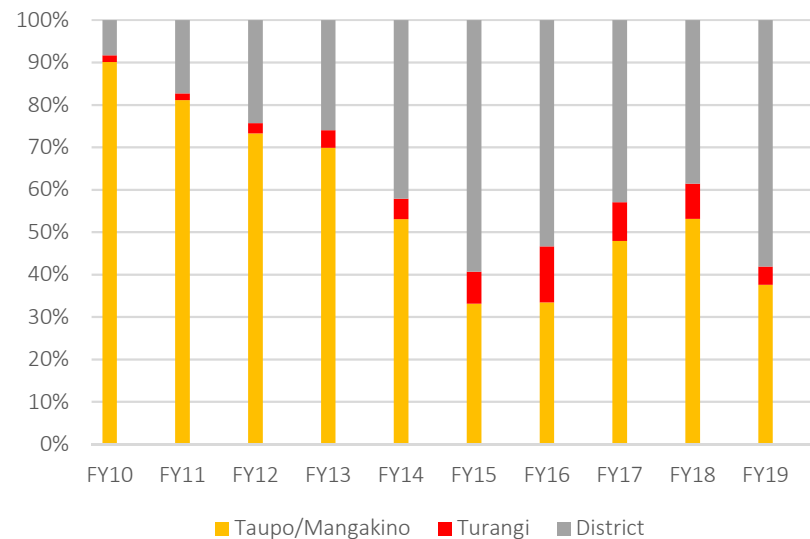
- 10% of specifically allocated expenditure related to the Turangi region for the 2018/19 financial year
- District CAPEX (to the value of \$12m in 2018/19) relates to expenditure impacting on the wider region and has been excluded from the adjacent graph. This expenditure cannot be reliably allocated to individual regions **without further analysis**.
- Management have elected to allocate District CAPEX to the specific regions based on an 80%/20% split. **Further analysis** is required to determine whether this allocation is appropriate or if District CAPEX could be disaggregated further to specific regions.

Source: TDC CAPEX Spend by District FY10-FY19 spreadsheet

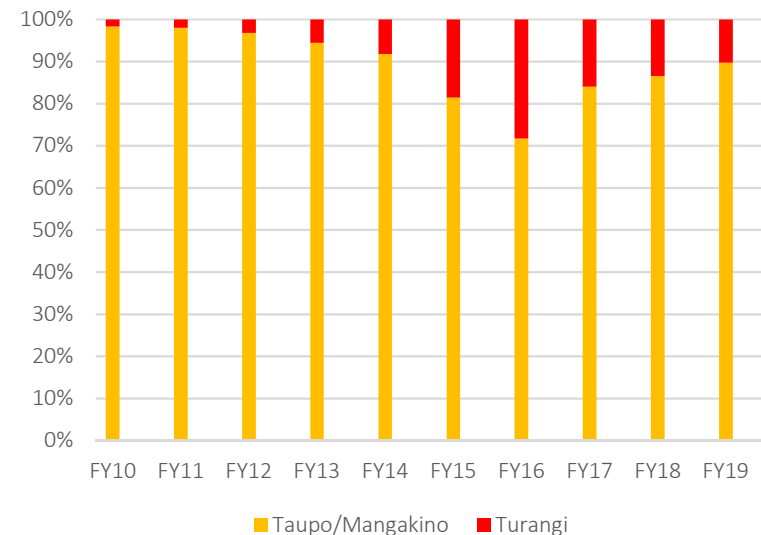
Capital Expenditure (cont)

The proportion of District CAPEX has increased historically due to an aggregation of cost centres that are now allocated to the District as a whole. This expenditure cannot be reliably allocated to specific regions **without further analysis**.

CAPEX Percentage including District



CAPEX Percentage excluding District



- District CAPEX includes expenditure in relation to district-wide transport, storm water systems, parks and reserves, and forestry among others.
- Refer Appendix 2 for the table presenting spend in dollars.

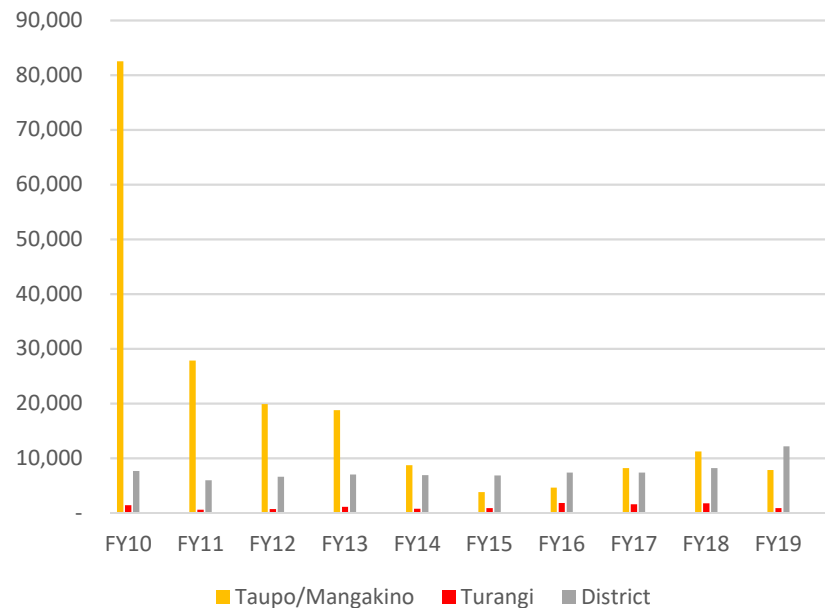
- In FY16, there was a project in relation to Turangi’s Motuoapa wastewater system, accounting for the large increase in relative proportion in that period.

Source: TDC CAPEX Spend by District FY10-FY19 spreadsheet

Capital Expenditure (cont)

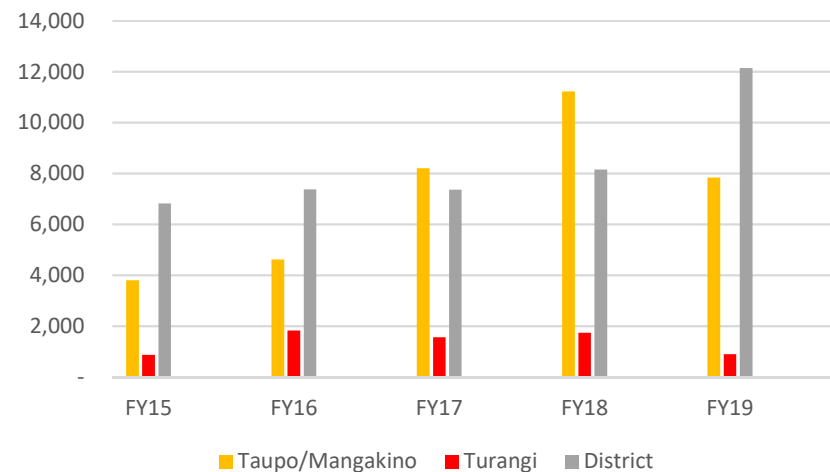
Specifically allocated CAPEX to Taupo has fluctuated over the historic period while specifically allocated Turangi CAPEX has remained relatively stable.

Historic CAPEX Spend per Value (000's)



- Significant CAPEX was performed in Taupo in FY10 relating to the East Taupo Arterial (ETA) project for Transport. This was completed in FY12 and was a total cost of \$76.88m over the three years.
- Refer to Appendix 2 for CAPEX amounts spent each year analysed by \$.

Historic CAPEX Spend in Dollars for the Latest 5 Years (in 000's)



- To exclude the influence of large CAPEX in earlier years, we have taken a snapshot of the latest 5 years and analysed further.
- The largest CAPEX specifically allocated to Turangi over the past ten years was the Motuoapa wastewater system project with a total value of \$1.6m in FY16.

Source: TDC CAPEX Spend by District FY10-FY19 spreadsheet

Data Integrity Checks

We have performed checks back to underlying systems and reports for the information we have been presented with. This includes integrity and arithmetical checks. However, this work will be finalised once the further analysis is provided.

Approach

Our approach is as follows:

- Gain an understanding of the development process for the Model through review of specification documentation and/or inquiry with management.
- Integrity and arithmetical checks, including internal consistency and application of assumptions.
- Assess the design of the Model.
- Gain a high-level understanding of Model data inputs.
- Assess how management select Model data input sources, including practices to ensure consistency of Model data input across periods.
- Agree underlying assumptions used in splitting revenue and/or expenditure between Taupo and Turangi to supporting documentation.
- Assess the scope and robustness of quality assurance checks completed by the Council over Model data inputs.
- For a sample, perform detailed testing including a comparison of the total value of data input to source documents and understanding of amendments made.
- Assess the presentation of the results of the revenue and expenditure split between Taupo and Turangi.

Response

We have:

- Agreed rates revenue data to the annual reports for each of financial years FY10 to FY18.
- Agreed FY19 rates revenue data to the Long Term Plan.
- Agreed OPEX data to underlying budgets in the system. There are some minor reconciling variances between the Financial Summary and OPEX data which require further analysis.
- Checked data formulas within the spreadsheets for mathematical accuracy.
- Understood the allocation of costs to underlying cost centres.
- Understood the split between Turangi and Taupo for each of rates revenue, OPEX and CAPEX.
- Enquired with management the nature of utilities rates revenue.
- Enquired with management the nature of District expenditure. **Further analysis** will need to be performed in relation to the allocation of this expenditure between Turangi and Taupo.

The above integrity checks will be finalised once the further analysis has been provided.

Section 3

Appendices

Appendix 1 – Financial Summary

Revenues and Expenses the financial years FY13, FY14 and FY15

	2012/13			2013/14			2014/15		
	Turangi Direct	Share of District 20%	Turangi Total	Turangi Direct	Share of District 20%	Turangi Total	Turangi Direct	Share of District 20%	Turangi Total
Revenue (\$'000)									
Rates Revenue	10,135		10,135	10,429		10,429	10,618		10,618
Subsidies and grants	53	486	539	57	490	547	58	444	502
Development and financial contributions	12	18	31	17	43	61	20	48	68
Fees and charges	304	573	878	336	505	840	336	523	859
Finance revenue	0	1,013	1,013	0	790	790	0	825	825
Other revenue	0	332	332	0	336	336	0	283	283
Total Revenue	10,504	2,423	12,927	10,839	2,165	13,004	11,031	2,123	13,154
Expenses (\$'000)									
Personnel costs	798	2,492	3,290	802	2,418	3,219	745	2,480	3,225
Depreciation and amortisation expense	1,850	1,864	3,715	1,970	1,910	3,880	2,121	1,745	3,867
Finance costs	818	663	1,481	921	706	1,627	889	565	1,454
Other expenses	3,583	2,355	5,939	3,586	2,417	6,003	3,910	2,244	6,154
Total Operating Expenses	7,050	7,374	14,424	7,278	7,451	14,729	7,665	7,035	14,700
Net Surplus/(Deficit)	3,454	(4,951)	(1,497)	3,562	(5,286)	(1,725)	3,365	(4,911)	(1,546)

Source: Financial Statements by Ward 2013-19 spreadsheet

Appendix 1 – Financial Summary (cont)

Revenues and Expenses the financial years FY16, FY17, FY18 and FY19

	2015/16			2016/17			2017/18			2018/19		
	Turangi Direct	Share of District 20%	Turangi Total	Turangi Direct	Share of District 20%	Turangi Total	Turangi Direct	Share of District 20%	Turangi Total	Turangi Direct	Share of District 20%	Turangi Total
Revenue (\$'000)												
Rates Revenue	10,769		10,769	10,803		10,803	10,680		10,680	11,060		11,060
Subsidies and grants	0	525	525	0	628	628	0	1,065	1,065	0	836	836
Development and financial contributions	0	42	42	0	42	42	0	50	50	34	115	149
Fees and charges	325	587	912	322	642	965	277	772	1,049	275	872	1,147
Finance revenue	0	917	917	0	587	587	0	626	626	0	758	758
Other revenue	0	351	351	0	348	348	0	347	347	0	950	950
Total Revenue	11,095	2,422	13,517	11,125	2,247	13,372	10,957	2,860	13,817	11,369	3,531	14,899
Expenses (\$'000)												
Personnel costs	906	2,620	3,526	931	2,654	3,585	341	3,193	3,534	371	3,357	3,728
Depreciation and amortisation expense	2,155	1,597	3,752	2,086	1,590	3,677	1,802	2,103	3,906	1,907	2,279	4,186
Finance costs	838	496	1,334	745	380	1,125	581	483	1,064	618	457	1,076
Other expenses	3,960	2,278	6,238	3,925	2,102	6,026	3,412	2,840	6,252	3,742	2,992	6,734
Total Operating Expenses	7,860	6,990	14,850	7,687	6,725	14,413	6,137	8,620	14,757	6,638	9,086	15,724
Net Surplus/(Deficit)	3,235	(4,568)	(1,333)	3,438	(4,479)	(1,041)	4,820	(5,760)	(940)	4,730	(5,555)	(825)

Source: Financial Statements by Ward 2013-19 spreadsheet

Appendix 2 – CAPEX Further Analysis

CAPEX Spend in Dollars for the period FY10 to FY19

	Taupo \$'000	Turangi \$'000	District \$'000
2009/10	82,539	1,418	7,677
2010/11	27,818	561	5,934
2011/12	19,872	664	6,592
2012/13	18,779	1,104	6,997
2013/14	8,685	780	6,903
2014/15	3,806	870	6,821
2015/16	4,620	1,821	7,372
2016/17	8,205	1,563	7,368
2017/18	11,219	1,742	8,150
2018/19	7,836	896	12,138

Source: TDC CAPEX Spend by District FY10-FY19 spreadsheet

Appendix 3 - Documents Sighted and Glossary

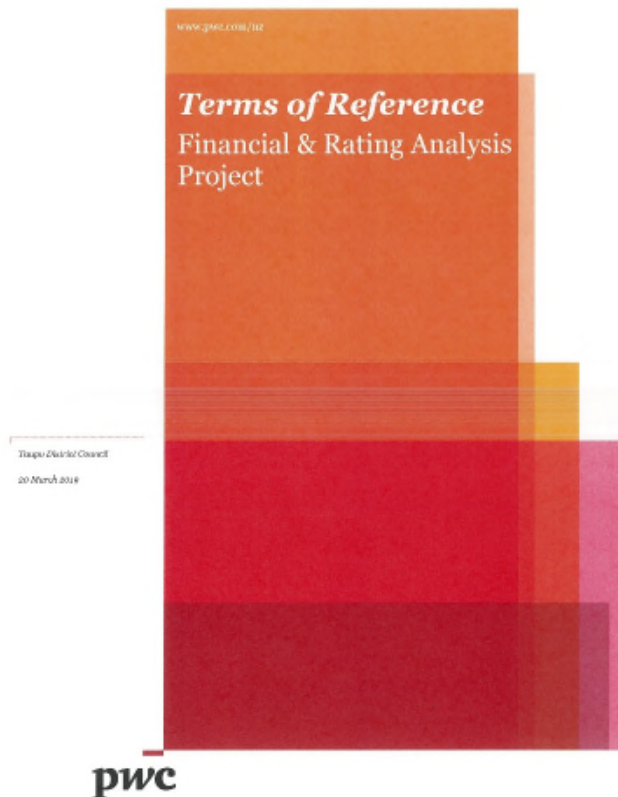
The following documents have been reviewed by PwC in performing the Financial and Rating Analysis Project

- Financial Statements by Ward 2013-2019 spreadsheet
- Turangi Rates for the Ten Years FY10-FY19 spreadsheet
- Turangi Rates Requirement for the Ten Years FY10-FY19 spreadsheet
- Annual Reports for the years ending 2010 to 2018
- Long Term Plan for the year ending 2019
- CAPEX Spend by District FY10-FY19 spreadsheet

Glossary

- TDC – Taupo District Council
- OPEX – Operational Expenditure
- CAPEX – Capital Expenditure
- FY – Financial Year
- Taupo – refers to both the Taupo and Mangakino regions
- PwC – PricewaterhouseCoopers

Appendix 4 - Terms of Reference



1. Terms of Reference

Background

As part of the Internal Risk Programme for 2018/2019, and in accordance with our engagement letter dated 9 October 2018, we will undertake Internal Audit procedures for Taupo District Council (TDC).

This will assist the Audit and Risk Committee to obtain an independent check of the financial and rating analysis for Taupo District Council. This will have specific analysis in relation to Turnage.

Our Internal Audit methodology is designed to complement the Internal Audit process of Council. These engagements are designed to specifically address areas where the identified risk is higher or where management and/or Council require additional procedures over and above what is provided in the ordinary course of business.

Objective and scope

The objective of this engagement is to test the financial and rating analysis as follows:

- To perform a number of specific tests over the excel model designed to identify any factors that could impact on the mathematical integrity of the model
- Assessment of the input sources into the model including procedures to ensure the completeness, accuracy and validity of data inputs.

In testing the excel model, we will undertake the following agreed upon procedures ("the Procedures") in relation to the excel model ("the Model") and its supporting documentation (detailed procedures are noted in the Appendix):

Integrity and Consistency

- a) Gain an understanding of the development process for the Model through review of specification documentation and / or through discussion with you
- b) Integrity and arithmetical checks:
 - Whether calculations in the Model appear in all material respects logical, internally consistent and arithmetically correct.
 - That the Models appear to allow changes in assumptions to correctly flow through to the results
 - That any macros in the Model that govern the calculation of the Model's outputs appear to function correctly.

Appendix 4 - Terms of Reference (cont)



- c) Assess the Model against good practice and design principles. These principles focus on users' ease of use and reducing the likelihood of errors.

The above Procedures will be carried out with the objective of supporting an overriding conclusion that, based solely on the work carried out, no matters have come to our attention to suggest that the Model is not mathematically reliable. However, it is not practicable to test a spreadsheet model to an extent whereby it can be guaranteed that all errors have been detected and accordingly we will give no such guarantee.

Completeness, Accuracy and Validity

- d) Gain from you a high-level understanding of Model data inputs and their relevant owner(s)
- e) Assess how management are selecting Model data input sources, including practices to ensure consistency of Model data input across different periods
- f) Agree underlying assumptions used in splitting revenue and/or expenditure to supporting documentation and provide observations on alternative basis for splitting expenditure between Taupo and Turangi
- g) Assess the scope and robustness of quality assurance checks completed by the Council over Model data inputs. This will include the independence of individuals completing the checks, the scope and nature of checks performed and how checks are documented
- h) For a sample of key data inputs of the Model, we will perform detailed testing as follows:
- Compare the total value of data input into the Model to the data input source (audited financial statements, long term plan)
 - Where data is amended between source and the Model, perform a high level check over the reasonableness of any amendments made through discussion with management.
- i) Assess the presentation of the results of the revenue and expenditure split between Turangi and Taupo, and provide feedback on alternative options (if any) on how this could be reported.

The above Procedures have assumed that underlying data held within data repositories that are input into the Model are complete, accurate and valid. It is not practicable to test this assumption as part of our assessment, other than where tested back to confirmed balances (as per audited financial statements) and accordingly we will give no such guarantee on this.

It should be noted that:

- a) Our work will not include any work in the nature of a financial audit and we will not verify any of the assets or liabilities involved; and
- b) We will not check whether the accounting assumptions and outputs from the model are in accordance with New Zealand Generally Accepted Accounting Principles (GAAP).

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Approach

The engagement will be undertaken as follows:

- Meet with key TDC staff to understand the analysis undertaken and the design and development of the Model
- Obtain from TDC all relevant documentation that support the design and development of the Model
- Perform the Procedures (a) to (i) above
- Develop our draft findings and recommendations for discussion with you and then finalise
- Attend community meeting, if required

Deliverables

Throughout the fieldwork, we will share and validate our observations with management on a *no surprises* basis. This will enable us to confirm our understanding of management functions, processes and controls, as well as highlighting any areas of concern and agreeing practical ways in which these could be addressed.

At the conclusion of our fieldwork, we will hold a meeting with management to confirm the factual accuracy of our report. We will meet with the sponsor to discuss our conclusions.

Our oral reports and any draft reports which you might receive will not constitute our definitive findings and recommendations. These findings and recommendations, if any, will be contained solely in our final written report.

These reports are provided solely for the Council for the purpose for which the services are provided. Unless required by law you shall not provide this report to any third party, publish it on a website or refer to us or the services without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to whom our report is disclosed or otherwise made available. No copy, extract or quote from our report may be made available to any other person without our prior written consent to the form and content of the disclosure.

The engagement will not constitute an agreed upon procedure, review or audit in terms of standards issued by the New Zealand Institute of Chartered Accountants. Accordingly, this engagement is not intended to, and will not, result in the expression of an audit opinion nor the fulfilling of any statutory audit or other requirements.

The deliverables will be provided solely for TDC and are subject to the confidential terms per the engagement contract between PwC and TDC.

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Appendix 4 - Terms of Reference (cont)



Sponsor

The sponsor for this engagement is the Chair of the Audit & Risk Committee, Anthony Byatt.

Staffing

This engagement will be performed by the following:

John Dixon	Engagement Partner responsible for the overall engagement.
Natasha Eastwood	Engagement Manager responsible for overseeing the delivery of the engagement.

Given the nature of this project, this engagement will primarily be performed by senior team members.

Other staff, including specialists, will be used as required.

Timeframe

The timeframes for this assessment will be agreed as required.

Planning of Engagement	YEC
Commence fieldwork (subject to availability of data)	YEC
Expected date for completion of fieldwork	YEC
Issue draft findings / workshop results	YEC
Management Comments received	YEC
Final results issued	YEC



Fees

We estimate that this assignment will take approximately 7 days onsite in Taupo with 4 days planning, additional testing and reporting time from our Hawke's Bay office. This will have an estimated total fee range for this engagement will be \$14,000 - \$66,900 exclusive of GST and disbursements. The upper range is if attendance is required at a community meeting.

This fee excludes a service fee of 8% to cover our office support costs in respect of photocopying, postage, tolls and taxes, stationary, contracts and mileage. In addition to our fee, any other significant direct out of pocket expenses incurred would be charged at cost (e.g. travel and accommodation).

Achieving the timetable and budget, are dependent upon Council staff members being available to work with our team as required during that course of this evaluation and the availability of required documentation. Should the nature and extent of work required differ from that anticipated we will discuss with you and agree a revised timeframe and budget.

Appendix 4 - Terms of Reference (cont)



2. Acceptance

Please contact me if you have any questions in respect of this Terms of Reference.

If you are in agreement with this Terms of Reference, please sign where indicated below and return to us.

John Dixon
Partner
PwC
Napier
20 March 2019

I accept the above terms of reference for the Internal Audit Procurement on behalf of Taupo District Council.



Anthony Byatt
Chairperson, Audit & Risk Committee
Taupo District Council

5/4/19
Date

Disclaimer

This document has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose.

In preparing this document and providing our recommendations, we have relied upon, and assumed the accuracy and completeness of, all information available to us from public sources and furnished to us by Taupo District Council staff.

It should not be construed that we have conducted an audit of the information we have used.

This document has been prepared solely for use by Taupo District Council.

Our engagement did not constitute a statutory audit (the objective of which is the expression of an opinion on financial statements) or an examination (the objective of which is the expression of an opinion on management's assertions).

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this document and/or any related information or explanation (together, the "Information").

Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

This document has been prepared with care and diligence and the statements and opinions within it are given in good faith and in the belief on reasonable grounds that such statements and opinions are not false or misleading. No responsibility arising in any way for errors or omissions (including responsibility to any person for negligence) is assumed by us or any of our partners or employees for the preparation of the document to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the document or assumptions reasonably taken as implicit.

We reserve the right, but are under no obligation, to revise or amend the document if any additional information (particularly as regards the assumptions we have relied upon) which exists at the date of this document, but was not drawn to our attention during its preparation, subsequently comes to light.

This document is issued pursuant to the terms and conditions set out in our Terms of Reference with by Taupo District Council.

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