

**Deloitte.**



**Kaipara District Council**  
Report to Council  
for the year ended 30 June 2017

5 September 2017

Greg Gent  
Mayor, Kaipara District Council  
Private Bag 1001  
**Dargaville**

Dear Mr Gent

## **Report to Council for the year ended 30 June 2017**

In accordance with our normal practice, we include in the attached report all matters arising from our audit of the financial statements of Kaipara District Council for the year ended 30 June 2017 which we consider appropriate for the attention of the Audit, Finance, and Risk Committee ("the Committee"). These matters have been discussed with management and their comments have been included, where appropriate.

We look forward to the Committee meeting on 11 September, at which we will have the opportunity to discuss this report. In the interim, should you require clarification on any matter in this report, please do not hesitate to contact us.

We have substantially completed our audit subject to the satisfactory resolution of the outstanding matters detailed in the report.

This correspondence is part of our ongoing discussions and as required by Office of the Auditor-General's (OAG) auditing standards. The ultimate responsibility for the preparation of the financial statements rests with the Council.

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We have prepared this report solely for the use of the Committee and it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy without our prior written consent, we would not accept responsibility for any reliance that they might place on it.

We would like to take this opportunity to extend our appreciation to management and staff for their assistance and cooperation during the course of our audit.

Yours faithfully



Peter Gulliver  
**Partner**  
**for Deloitte Limited**  
**On behalf of the Auditor-General**

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# Executive Summary

## Status of the audit

Our audit of the financial statements is substantially complete, subject to the outstanding matters noted in the *Audit scope* section.

## Audit scope



We have performed an audit of Kaipara District Council for the year ended 30 June 2017 in accordance with the Office of the Auditor General's (OAG) auditing standards. Our audit is performed pursuant to the requirements of the Local Government Act 2002 (the Act), with the objective of forming and expressing an opinion on the financial statements, performance information, and other requirements of Schedule 10.

## Areas of focus



Our audit procedures were focused on those areas of Kaipara District Council's activities that are considered to represent the significant risk areas, including:

1. Non-financial performance measures
2. Council funding
3. Development contributions
4. Revaluation of infrastructure assets
5. Rates

Additional sector wide areas of focus:

1. Fraud
2. Performance, waste, and probity
3. Managing conflicts of interest and related party transactions
4. Legislative compliance and more specifically of rates
5. Financial prudence

## Internal controls



In performing our audit we have not identified any material weaknesses in internal controls which would impact upon our ability to provide our opinion on the financial statements.

We have identified a number of recommendations, however, which will be communicated under separate cover in the management letter.



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## Summary of unadjusted differences



In performing our audit of Kaipara District Council for the year ended 30 June 2017 we have not identified any uncorrected misstatements or omitted disclosures that could, either individually or in aggregate, have a significant effect on the financial statements for the year ended 30 June 2017. There are however a number of individually and collectively immaterial adjustments we have raised with management. The net effect of these uncorrected differences identified would be to reduce surplus by approximately \$0.1m.

## Other communications



Various matters are communicated in accordance with the requirements of the Office of the Auditor General's auditing standards:

- Independence
- Professional fees / relationships
- Written representations
- Non-compliance with laws and regulations
- Accounting policies / financial reporting
- Related parties
- Other significant matters



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## Purpose of report

This report has been prepared for Kaipara District Council's ("Council") Audit, Finance, and Risk Committee ("Committee") and is part of our ongoing discussions and as required by the Office of the Auditor General's (OAG) auditing standards. This report includes only those matters that have come to our attention as a result of performing our audit procedures and which we believe are appropriate to communicate to the Committee. The ultimate responsibility for the preparation of the financial statements rests with the Council.

## Responsibilities

We are responsible for conducting an audit of Council for the year ended 30 June 2017 in accordance with the OAG's auditing standards which incorporate the New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board. Our audit is performed pursuant to the requirements of the Local Government Act 2002 with the objective of forming and expressing an opinion on the financial statements, performance information, and other requirements of Schedule 10 that have been prepared by management with the oversight of the Councillors. The audit of the financial statements does not relieve management or the Councillors of their responsibilities.

## Outstanding matters

As at the date of preparing this report the following matters in respect of our audit are outstanding:

- Procedures relating to the final disclosures in the financial statements;
- Appropriate procedures relating to subsequent events up to the date of our audit opinion;
- Receipt of the signed management representation letter; and
- Adoption of the financial statements and annual report by Council.



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# Areas of focus

## Audit risks

Our audit procedures were focused on those areas of the Council's activities that are considered to represent the significant risk areas which include:

- the significant risks of material misstatement for our audit whether due to fraud or error; and
- other matters of significance which have not been identified as significant audit risks.

These areas of focus were identified as a result of:

- the risk assessment process undertaken during the planning phase of our engagement and presented to the Committee in our audit strategy documents dated 24 February 2017;
- our understanding of the risks faced by the Council;
- discussions with management during the course of our audit
- the significant risks and uncertainties previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the organisation and the environment it operates in since the last annual report and financial statements.

The identification of areas of focus included consideration of the significant qualitative aspects of the entity's accounting practices, including judgements about accounting policies, accounting estimates and financial statement disclosures identified during the course of our audit of the financial statements.

On the following pages we provide a summary of our audit findings in relation to each of our areas of focus. These findings are based on our audit procedures performed for the year ended 30 June 2017.



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# Areas of focus - continued

## Audit risk dashboard

Area of focus	Significant risk	Fraud risk	Planned controls testing approach	Controls testing conclusion	Level of management judgement required	Consistency of judgements with Deloitte expectations
Non-financial performance measures	✗	✗	D+I	Satisfactory		
Council funding	✓	✗	D+I	Satisfactory		
Development contributions	✓	✗	D+I OE	Satisfactory		
Revaluation of infrastructure assets	✓	✗	D+I OE	Satisfactory		
Rates	✓	✗	D+I OE	Satisfactory		

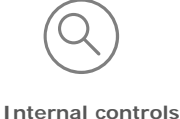
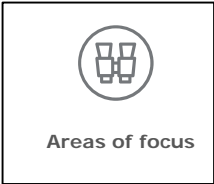
**D+I:** Testing of the design and implementation of key controls  
**OE:** Testing of the operating effectiveness of key controls

**Level of management judgement required**



**Consistency of judgements with Deloitte expectations**

Overly prudent, likely to lead to future credit Overly optimistic, likely to lead to future debit.



# Areas of focus - continued

## Audit findings

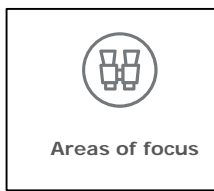
Area of focus	Audit response	Audit findings
<p><b>Non-financial performance measures</b></p> <p>The Non-Financial Performance Measures Rules 2013 came into force on 30 July 2014. Local authorities were required to incorporate the performance measures in the development of their 2015-2025 LTPs and report against them for the first time in the 2015/16 annual reports.</p> <p>As highlighted in the constructive letter to management, during the 2016 audit we identified issues relating to the availability and quality of the non-financial performance data. We also recommended that the measures be reconsidered as part of the 2018-28 Long Term Plan.</p> <p>Consequently, we have identified a risk that the performance reported against these measures in the annual report is not accurate or does not adequately reflect the Council's activities.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"><li>• Reviewing the controls around the collection, reporting, and management of the non-financial performance information.</li><li>• Performing detailed testing on a sample of material performance measures by tracing to supporting evidence.</li><li>• Working with management to identify specific areas in which the current performance measures could be improved in the next Long Term Plan</li></ul>	<p>We identified no material misstatement in the non-financial performance measures.</p> <p>We have undertaken an extensive benchmarking exercise of KDC's measures against a number of other Councils, both of similar size and scale and larger Councils. This has been provided to management to facilitate an assessment of the performance framework during the upcoming LTP preparation process.</p>



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# Areas of focus - continued

## Audit findings - continued

Area of focus	Audit response	Audit findings
<p><b>Council Funding</b></p> <p>Council anticipates \$65m of public debt on the balance sheet at 30 June 2017. Following Council's acceptance into the Local Government Funding Authority (LGFA) regime during the previous financial year, a refinancing programme has been in place to move all public debt to the LGFA. The debt at year-end is therefore expected to consist largely of bonds, supplemented with a small number of short term debt instruments.</p> <p>The LGFA facilitated borrowings are subject to certain reporting and covenant requirements. There is a risk that tests for compliance with covenants do not accurately reflect Council's performance against those covenants, and that reporting requirements are not met.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> <li>• Reviewing any updates to documentation relating to Council's membership of the LGFA, including relevant deeds, stock confirmations, and guarantees and indemnities;</li> <li>• Reviewing disclosures in the financial statements to determine their adequacy with regards to debt funding (including the current vs non current classification of debt) and membership of the LGFA;</li> <li>• Determining compliance with reporting requirements and covenants relating to LGFA debt instruments; and</li> <li>• Completing the trustee reporting as required for the trust deed signed with regards to the LGFA (this will be completed under a separate audit engagement)</li> </ul>	<p>We identified no material misstatement in respect of Council Funding.</p> <p>Reporting pursuant to the Trust Deed will be completed at the conclusion of the audit.</p>

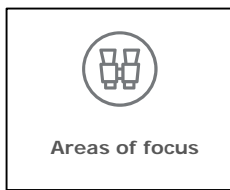
Area of focus	Audit response	Audit findings
<p><b>Development Contributions</b></p> <p>There is a risk that development contributions may be misstated if they are calculated incorrectly or revenue is recognised incorrectly.</p>	<p>We tested a sample of development contributions for accuracy, and reviewed the recognition policy and practice against relevant accounting standards.</p>	<p>We identified no material misstatement in respect of development contributions.</p>



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# Areas of focus - continued

## Audit findings - continued

Area of focus	Audit response	Audit findings
<p><b>Revaluation of Infrastructure Assets</b></p> <p>The Council accounts for revaluations of infrastructural assets on a class of asset basis. The asset classes include roads, land under roads, water reticulation, wastewater reticulation, stormwater systems and flood protection assets. Land associated with the wastewater system (particularly at Mangawhai) is also treated as a separate class of infrastructure asset.</p> <p>Management have adopted a rotation basis for revaluing the asset classes so the valuations are not all completed in the one year. The infrastructure assets to be revalued for the 2016/17 financial year are the roading assets, wastewater, and land associated with wastewater.</p> <p>Consistent with the 2015/16 year, Council plans to engage independent third party valuation experts to undertake the valuation of these assets, as well as determine (on a desk top basis) whether there has been any material movement in the fair value of the infrastructure assets not subject to a full valuation in 2017.</p> <p>There is a risk that revaluations are not appropriate because of faulty assumptions and/or data, and that revaluation movements are not adequately reflected in the financial statements.</p>	<p>In order to address this risk, we:</p> <ul style="list-style-type: none"> <li>• Obtained the independent valuations of the relevant infrastructure asset classes;</li> <li>• Obtained representations directly from the independent valuers confirming their valuation methodology;</li> <li>• Reviewed the key underlying assumptions used by the independent valuers to determine whether these assumptions were reasonable and in line with NZ generally accepted accounting practice (NZ GAAP);</li> <li>• Held various discussions with the valuers as appropriate; and</li> <li>• Determined whether the revaluation transactions are correctly accounted for and disclosed in the financial statements in compliance with NZ GAAP;</li> <li>• Obtained representations from management's experts as to impairment indicators and material fluctuations in value of assets not revalued in the current year.</li> </ul>	<p>We identified no material misstatement in respect of infrastructure assets.</p> <p>We note that aspects of the stormwater system were subject to a desk top valuation by Opus after their initial review indicated this class of asset was likely to have moved materially from the valuation undertaken in 2016. This resulted in a revaluation gain of \$2.5m.</p> <p>The valuers, and peer reviewers have made a number of recommendations to management concerning improvements to the underlying data. It will be important these improvements are factored in for subsequent revaluation exercises.</p>



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## Audit findings - continued

Area of focus	Audit response	Audit findings
<p><b>Rates</b></p> <p>Over recent years there have been a number of issues within the Local Government sector arising from rates not being set in accordance with the Local Government (Rating) Act 2002 (LGRA). Compliance with the detail of the LGRA is vital: if the rate is not within the range of options and restrictions provided for in that Act, it may not be valid.</p> <p>Management and Council need to continue to ensure that the requirements of the LGRA are adhered to and that there is consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the respective LTP or Annual Plan (AP).</p> <p>Council is joined with Northland Regional Council (NRC) in an action brought by the Mangawhai Ratepayer and Residents Association, which challenges the legal basis of rates collected by the Council on behalf of NRC, along with other aspects of the rate-setting process.</p> <p>An interim judgement on 15 September 2016 upheld the MRRA's complaint in respect of the legality of rates collected on behalf of NRC, though not in respect of the other aspects of the rate-setting process. This result has been confirmed in the final judgement issued in August 2017</p>	<p>In order to address this risk, we:</p> <ul style="list-style-type: none"> <li>• Tested the controls around the rates setting process at Council;</li> <li>• Completed a 'work programme' compiled by the OAG, (similar to that completed in the prior year), to assist us in determining if rates had been set correctly by the Council;</li> <li>• Reviewed the meeting minutes recording the adoption of the rates resolution, determining whether the rates are in accordance with the revenue and financing policy as well as reviewing any other information available with regard to rates;</li> <li>• Reviewed the final August 2017 judgment on the legality of the NRC rates to confirm there are no direct implications or issues raised for KDC.</li> </ul>	<p>We identified no material misstatement during our testing on rates.</p>



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# Other areas of focus

## OAG and other audit brief requirements - Audit findings

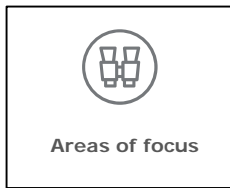
Area of focus	Audit response	Audit findings
<p><b>Fraud</b></p> <p>The primary responsibility for the prevention and detection of fraud rests with management and the Council, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditor, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.</p>	<p>Throughout the financial year we remained alert for issues that indicate fraud.</p> <p>Specifically our work involved:</p> <ul style="list-style-type: none"> <li>• Formal inquiries of the Council, management and others within the entity regarding the risks of fraud within the Council including the processes in place to mitigate those risks;</li> <li>• Documenting systems and internal controls used by the Council to prevent and detect fraud. In this area we will raise any weaknesses with management and the Council as applicable;</li> <li>• Remaining alert for the existence of any confidentially clauses in employment contracts that may prevent disclosure of information and thus reduce the level of transparency of spending of public monies; and</li> <li>• Reviewing the current fraud policy to ensure it follows OAG guidance and ensure management and employees are aware of the fraud policy and its content</li> </ul>	<p>We identified no material misstatement in respect of fraud.</p> <p>An anonymous allegation of fraud was made in relation to one area of the Council's operations. This was investigated by Council, who engaged a third party internal auditor to review cash handling processes. No fraud was proven.</p>



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## OAG and other audit brief requirements - Audit findings

Area of focus	Audit response	Audit findings
<p><b>Performance, waste and probity</b></p> <p>Ensuring that Parliament’s expectations are met with respect to use of rate payer funds is a key feature of any audit in the public sector.</p>	<p>Our audit approach included a specific programme of work, as in previous years, covering the following aspects:</p> <ul style="list-style-type: none"> <li>• Confirming Council has the appropriate policy framework for areas such as delegated authorities, fraud, conflicts of interest etc.</li> <li>• Testing certain areas of sensitive expenditure to ensure spending is appropriate and authorised in accordance with policy and best practice.</li> <li>• Reviewing areas such as credit card expenditure, fuel card expenditure, and mobile phone expenditure.</li> </ul>	<p>We did not identify any issues in respect of performance, waste, and probity.</p>

Area of focus	Audit response	Audit findings
<p><b>Managing conflicts of interest and related party transactions</b></p> <p>Councils are required to ensure that there are appropriate procedures in place to identify and manage conflicts of interest and that related party disclosures in the financial statements are complete.</p>	<p>Our audit procedures on related party disclosures included searching public records for potential related party relationships (such as the Companies Office website). We also ensured any entries in the interests register were individually assessed, and those which met the definition of a related party transaction during the year were disclosed in the Annual Report. This included remuneration disclosures relating to the Councillors and key management personnel.</p>	<p>We did not identify any issues in respect of conflicts of interest and related party transactions.</p>



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## OAG and other audit brief requirements - Audit findings

Area of focus	Audit response	Audit findings
<p><b>Legislative compliance and more specifically legality of rates</b></p> <p>The Council is subject to significant regulatory and legislative compliance requirements. The Council needs to have adequate systems in place to monitor compliance with legislation along with any changes occurring in the applicable legislation.</p>	<p>Our audit procedures included looking at Council's processes for ensuring legislative compliance, including specifically testing compliance with legislation that materially impacts on the financial statements. This included the Local Government Act 2002 and the Local Government (Rating) Act 2002. In particular extensive work was completed on the rates setting process, as outlined in the Areas of Focus section above.</p>	<p>We identified no issues in respect of legislative compliance.</p>

Area of focus	Audit response	Audit findings
<p><b>Financial prudence</b></p> <p>Councils are required to include appropriate benchmarking reporting in the Annual Report as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.</p>	<p>Our audit procedures included reviewing the disclosures and recomputing key ratios to determine whether Council was in compliance with these regulations.</p>	<p>We identified no issues in respect of legislative compliance.</p>



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# Internal controls

## Objective

Our audit approach requires us to obtain an understanding of an entity's internal controls, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error.

We remind you that our audit was not designed to express an opinion on the effectiveness of the controls operating within the Council, although we will be reporting to management under separate cover any recommendations on controls that we identified during the course of our audit work. The matters being communicated are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported. Recommendations for improvement should be assessed by you for their full commercial implications before they are implemented.

## Internal controls assessment

In performing our audit of Council for the year ended 30 June 2017 we have not identified any significant deficiencies in internal controls which would impact upon our ability to provide our opinion on the financial statements for the year ended 30 June 2017; however, we did note a number of control observations and expect to issue a Management Letter with our recommendations shortly.

## Matters relating to fraud

During the course of our audit the following matters relating to fraud, concerning either employees or management, have come to our attention other than those discussed within the Areas of Focus section of our report.



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# Summary of unadjusted differences

## Unadjusted differences

For the financial statements our materiality was \$660,000 (prior year: \$630,000).

In performing our audit of Kaipara District Council for the year ended 30 June 2017 we have not identified any uncorrected misstatements that management believe could, either individually or in aggregate, have a material effect on the financial statements for the year ended 30 June 2017. The following unadjusted items are noted:

Unadjusted misstatements identified	Assets Dr/(Cr) (\$ '000)	Liabilities Dr/(Cr) (\$ '000)	Equity Dr/(Cr) (\$ '000)	Profit or loss Dr/(Cr) (\$ '000)
<i>Current year:</i>				
Overstated mark-up re on-charged consulting fees in relation to consents		(50)		50
Capitalisation of internal overhead costs	(60)			60
<b>Total current year</b>	<b>(60)</b>	<b>(50)</b>	<b>-</b>	<b>110</b>
<i>Prior year:</i>				
None identified with a carryover effect on the current year financial statements				
<b>Total</b>	<b>(60)</b>	<b>(50)</b>	<b>-</b>	<b>110</b>





# Summary of unadjusted differences - continued

## Omitted disclosures assessed by management as not being material

In performing our audit of Kaipara District Council for the year ended 30 June 2017, no material uncorrected disclosure deficiencies were detected in the financial statements. The following omitted disclosures assessed by management as not being material remain uncorrected in the financial statements and management has determined that these do not result in the material misstatement of the financial statements or non-compliance with the applicable legislative framework:

Omitted disclosures assessed by management as not being material	Ref	Management's response
Sensitivity of fair value of interest rate swaps to changes in interest rate have not been disclosed	PBE IPSAS 30:47	Omitted disclosure deemed immaterial by management.



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# Other communications

The following matters are communicated in accordance with the requirements of New Zealand auditing standards:

<b>Independence</b>	<p>We confirm that we have maintained our independence in accordance with the independence requirements of the OAG and <i>Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners</i> issued by the NZ Auditing and Assurance Standards Board and, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff are not compromised.</p>
<b>Professional fees/ relationships</b>	<p>Fees in respect of the audit of the financial statements are as per the engagement letter. No other services have been provided to the Council during the year. A whistle-blower hotline service has been provided to Council since year-end.</p> <p>In performing our audit of the Council for the year ended 30 June 2017 no relationships or other matters existed between the firm, network firms and the Council that, in our professional judgement, may reasonably be thought to bear on independence</p>
<b>Written Representation</b>	<p>A copy of the representation letter to be signed on behalf of the Council has been circulated separately.</p>
<b>Non-compliance with laws and regulations</b>	<p>In performing our audit of for the year ended 30 June 2017 we did not become aware of any instances of non-compliance with applicable laws and regulations that may have an impact on the determination of material amounts and disclosures in the financial statements.</p>
<b>Accounting policies / financial reporting</b>	<p>There were no material changes in accounting policies during the year ended 30 June 2017.</p> <p>In performing our audit of Kaipara District Council for the financial year ended 30 June 2017 we have not become aware of any significant qualitative aspects of the entity's accounting practices, including judgements about accounting policies, accounting estimates and financial statement disclosures that need to be communicated to the Committee, other than those in the <i>Areas of focus</i> section.</p>
<b>Related parties</b>	<p>In performing our audit of Council for the financial year ended 30 June 2017 no significant related party matters other than those reflected in the financial statements came to our attention that, in our professional judgement, need to be communicated to the Committee.</p>
<b>Other information</b>	<p>We have read the other information (the financial and non-financial information other than the financial statements) contained within the annual report and identified no material inconsistencies.</p>



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