

**AUDIT & RISK  
COMMITTEE MEETING**

# ORDER PAPER

**FRIDAY, 31 July 2020, 10.00am**

**Council Chamber, Rangitīkei District Council**  
46 High Street, Marton

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**Chair** - Mr Craig O'Connell

**Deputy Chair** – Councillor Nigel Belsham

**Membership**

Councillors Angus Gordon and Dave Wilson.

His Worship the Mayor, Andy Watson.

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**Please Note:** Items in this agenda may be subject to amendments or withdrawal at the meeting. It is recommended therefore that items not be reported upon until after adoption by the Council. Reporters who do not attend the meeting are requested to seek confirmation of the agenda material or proceedings of the meeting from the Chief Executive prior to any media reports being filed.

*Making this place home.*





# Rangitikei District Council

## Audit and Risk Committee Meeting

Agenda – Friday 31 July 2020 – 10:00 a.m.

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The quorum for the Audit and Risk Committee is 3.

Council's Standing Orders (adopted 31 October 2019) 11.2 provide: The quorum for Council committees and sub-committees is as for Council, i.e. half the number of members if the number of members (including vacancies) is even or a majority if the number of members is odd.

**1 Welcome****2 Council prayer****3 Public Forum****4 Apologies/Leave of Absence****5 Members' conflict of interest**

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

**6 Confirmation of order of business**

That, taking into account the explanation provided why the item is not on the meeting agenda and why the discussion of the item cannot be delayed until a subsequent meeting, ..... be dealt with as a late item at this meeting.

**7 Confirmation of minutes**

The Minutes of the Audit/Risk Committee meeting held on 27 February 2020 are attached.

File ref: 3-CT-17-2

**Recommendation:**

That the Minutes of the Audit/Risk Committee meeting held on 27 February 2020 [as amended/without amendment] be taken as read and verified as an accurate and correct record of the meeting.

**8 Chair's report**

A verbal report will be provided at the meeting.

**9 Work programme matrix – update**

The Work programme matrix – update will be tabled at the meeting.

**Recommendation:**

That the tabled 'Work programme matrix – update' to the 31 July 2020 Audit/Risk Committee be received.

## **10 Strategic risks – from a COVID-19 perspective**

The current Strategic risks are attached. The Committee may wish to review these reflecting on the known and projected impacts from COVID-19.

## **11 Audit plan Rangitikei District Council, for the year ended 30 June 2020**

The signed Audit plan, Audit Engagement letter and proposal letter are attached.

### **Recommendation:**

That the report 'Audit plan Rangitikei District Council, for the year ended 30 June 2020' to the 31 July 2020 Audit/Risk Committee be received.

## **12 Insights into local government: 2019**

The Auditor-Generals insight on local government is attached.

### **Recommendation:**

That the 'Insights into local government: 2019' to the 31 July 2020 Audit/Risk Committee be received.

## **13 2021-31 Long Term Plans**

A letter from the Auditor-General is attached, together with the key milestones for the development of the 2018-28 Long Term Plan.

### **Recommendation:**

That the letter '2021-31 Long Term Plans' to the 31 July 2020 Audit/Risk Committee be received.

## **14 Three Waters Reform Programme**

A proposal to transform the delivery of three waters services is attached.

### **Recommendation:**

That the 'Three Waters Reform Programme' to the 31 July 2020 Audit/Risk Committee be received.

## **15 Late items**

As agreed in item 6.



## **16 Future items for the agenda**

Insurance

Payroll system review

Regulatory practice – this will be a greater area of focus for the Auditor-General

Health and Safety implications on private assets / club assets on our parks

## **17 Next meeting**

Thursday 26 November 2020, 9.00am

## **18 Meeting closed**

# Attachment 1



# Rangitikei District Council

## Audit and Risk Committee Meeting

Minutes – Thursday 27 February 2020 – 9:30 a.m.

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**Present:** Mr Craig O'Connell (Chair)  
Cr Nigel Belsham  
Cr Dave Wilson  
Cr Angus Gordon  
His Worship the Mayor, Andy Watson

**Also in attendance:** Cr Fi Dalgety  
Cr Brian Carter

**In attendance:** Mr Peter Beggs, Chief Executive  
Mr Michael Hodder, Community & Regulatory Services Group Manager  
Mr Chris Webby, Audit New Zealand  
Ms Jo Devine, Group Manager, Finance & Business Support  
Ms Nardia Gower, Strategy and Community Planning Manager  
Ms Bonnie Clayton, Governance Administrator

## **1 Welcome**

The Chair welcomed everyone to the meeting at 9.32am.

## **2 Council prayer**

The Chair read the Council prayer.

## **3 Public Forum**

Nil

## **4 Apologies/Leave of Absence**

Nil

## **5 Members' conflict of interest**

Members were reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

There were no conflicts declared.

## **6 Confirmation of order of business**

There were no changes to the order of business.

## **7 Confirmation of minutes**

<b>Resolved minute number</b>	<b>20/ARK/001</b>	<b>File Ref</b>	<b>3-CT-17-2</b>
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That the Minutes of the Audit/Risk Committee meeting held on 5 December 2019 without amendment be taken as read and verified as an accurate and correct record of the meeting.

Cr Belsham/Cr Gordon. Carried

## **8 Chair's report**

There was no Chair's report for this meeting.

## **9 Strategic risks**

The report was taken as read. The Committee noted that this had been discussed in full with Councillors who have a good understanding of it.

Mr Beggs briefed the Committee that the Executive Management team are to develop a Strategy Plan on Coronavirus.

Committee members provided feedback, noting a focus on staff and Council to Mr Beggs to take back to the Executive Management team.

## **10 Work programme matrix – update**

The Committee discussed the Work programme matrix, identifying that water supply and Putorino landfill may need to be included.

The Committee requested the Work Programme matrix be an agenda item in the next meeting for further review.

**Resolved minute number**                      **20/ARK/002**                      **File Ref**

That the tabled 'Work programme matrix – update' to the 27 February 2020 Audit/Risk Committee be received.

Cr Gordon/Cr Wilson. Carried

**Resolved minute number**                      **20/ARK/003**                      **File Ref**

That, noting the issues on the West Coast, the Audit/Risk Committee advises it is concerned around the work planning and consenting timelines for remediation of the exposed Putorino landfill and requests Council to urgently take this concern to Horizons Regional Council and/or the Minister for the Environment regarding our environmental risk and reputation.

His Worship the Mayor/Cr Belsham. Carried

## **11 Risks in developing the 2021-31 Long Term Plan**

The commentary was noted in the agenda.

## **12 Internal Audit programme – progress update**

The commentary in the agenda was noted.

## **13 Report to Council on the Audit of Rangitikei District Council, 2018/19**

Mr Chris Webby spoke to the report. The key issue was the valuation of infrastructure assets. Given the cost of this work, the Committee thought a sector-wide approach warranted consideration, perhaps led by the Society of Local Government Managers. The change in asset life had a flow-on effect to depreciation. The Committee was interested in exploring the ability

to defer depreciation on new assets (e.g. to defer beginning depreciation until year 5 of the asset's life) while debt from borrowing to fund the asset was being paid back.

The Committee requested that the Audit of Rangitikei District Council be an agenda item in the next meeting to allow members time to review the audit.

Mr Webby indicated the local government sector manager at the Office of the Auditor General was interested in talking to councils.

**Resolved minute number****20/ARK/004****File Ref****5-EX-2-4**

That the report to Council on the Audit of Rangitikei District Council, 2018/19 to the 27 February 2020 Audit/Risk Committee be received and be further considered at the Audit/Risk June meeting.

Cr Gordon/Cr Belsham. Carried

**14 Late items**

None

**15 Future items for the agenda**

Insurance

Payroll system review

Work Programme matrix – update – next meeting

Audit of Rangitikei District Council- next meeting

Regulatory practice – this will be a greater area of focus for the Auditor-General

Auditor General's report on local government– include freshwater

Health and Safety implications on private assets / club assets on our parks

**16 Next meeting**

Thursday 28 May 2020, 9.00am

**17 Meeting closed**

11.01am

**Confirmed/Chair:** \_\_\_\_\_

Date:

# Attachment 2



# Strategic risks for Rangitikei District Council

## Introduction

One of the areas of improvement for the Council identified in the 2017 report from the Independent Assessment Board was for all elected members to be actively engaged in, and have a detailed understanding of, strategic risk issues. These are 'risk that affect or are created by an organisation's business strategy and strategic objectives'<sup>1</sup>: they arise from adverse business decisions, improper implementation of decisions or lack of responsiveness in the business environment.

The Committee has discussed this question at its meetings in November 2018 and February 2019 and considered a draft at its meeting on 27 June 2019. Council reviewed this draft at a workshop on 18 July 2019. Focus is on the long-term, organisation-wide and something which Council can do something about. There needs to be clarity on the likelihood of the risk and its impact. This revised statement was further considered on 5 December 2019.

The following explores the ten risks discussed and offers suggestions on how each risk might be addressed:

1. Trust and confidence is tarnished
2. Human capital is weakened
3. Legal and political environment requires excessive resources
4. Capital programme falters
5. Financial stability is lost
6. Regulatory effectiveness is questioned
7. Climate change responsiveness is ineffective
8. Business continuity is compromised
9. Obligations with health and safety and environmental protection are not met.
10. Changes to Government legislation are transformational

The final set of strategic risks will be the starting point to review the current risk framework, for consideration by the Committee at its December meeting. It would be helpful for Council to include this as a workshop topic before then so all elected members have an early understanding.

What is the risk (and its consequences)?	How to address the risk?
<b>1. Trust and confidence is tarnished</b> The risk is that Council misunderstands community expectations or fails to work with advocacy group either of which may lead to continuous public criticism, particularly in social media and division among elected members and staff.	Council regularly samples community views and individual elected members have a wide range of contacts in the community. These could be reinforced by more informal polls, sample questioning of those submitting service requests and inviting

<sup>1</sup> Deloitte, 'Exploring strategic risk', 2013, page 4.

<p>Inept handling of sensitive issues involving (for example) drinking water, wastewater discharges, lwi, privacy, or information disclosures can lead to a loss of confidence in Council's effectiveness.</p> <p>Likelihood – Medium Impact – High</p>	<p>identified advocacy groups to speak to Council.</p> <p>Developing and applying protocols for sensitive issues would be a useful initial step. Longer-term, priority could be given to procedures and policies which would reduce the likelihood of such issues arising.</p> <p>Analysing social media comments more closely in conjunction with similar (rural) councils could help alert Council to sensitive issues, to understand their degree of uniqueness and to develop targeted responses (not necessarily in social media but in Council policies and practices).</p> <p>The Auditor General has begun a programme of work about the future of public accountability – the first phase being a discussion paper 'Public accountability: A matter of trust and confidence'<sup>2</sup>. Keeping informed about this work is certain to be helpful for Council, not just in how it manages public engagement but also in its behaviours.</p>
<p><b>2. Human capital weakens</b></p> <p>The risk is that Council loses a number of specialist staff which exposes a knowledge gap. This may compromise an ability to deliver and lead to a reduction in service standards and additional costs to buy in external expertise. In addition, there may not be enough staff to cope with increased work expectations, especially capital projects.</p> <p>An associated risk comes from a change in Elected Members and the potential loss of knowledge and experience</p> <p>Likelihood – High Impact – Medium</p>	<p>A small council inevitably has single points of knowledge. There are three complementary approaches –</p> <ul style="list-style-type: none"> <li>(a) promoting documentation of processes</li> <li>(b) Establishing career pathways, and</li> <li>(c) rotation of staff (both within the council and with neighbouring councils) –</li> </ul> <p>Together, they would be likely to reduce that dependency on individual expertise and increase staff understanding of how roles can develop and become more effective.</p> <p>A comprehensive induction for Council after the triennial elections is critical.</p>

<sup>2</sup> <https://www.oag.govt.nz/2019/public-accountability/docs/public-accountability.pdf>

<p><b>3. Legal and political environment requires excessive resources<sup>3</sup></b></p> <p>The risk is that Council is unable to respond in a timely and efficient way to changes in central government policies and legal requirements, which may mean unexpected costs, a focus on achieving compliance, and a consequential reduced service standards</p> <p>An associated risk is that Horizons Regional Council changes its stance with local authorities, increasing cost and perception that Council has insufficient regard for its environmental impacts.</p> <p>Likelihood – Medium Impact - High</p>	<p>Council could maximize its dialogue with other local councils, and stress the potential benefits in a partnership approach to influence central government policy and legislation. This would require discussion with LGNZ and SOLGM to clarify issues which those organisations would lead and how councils participate in those initiatives.</p>
<p><b>4. Capital programme falters</b></p> <p>The risk is that Council is unable to secure contractors for major capital works (and thus doesn't achieve its targeted works programme) because of</p> <ul style="list-style-type: none"> <li>(i) other councils' programmes and central government initiatives such as the road replacement for the Manawatū Gorge and new social housing complexes in the larger centres of the region and</li> <li>(ii) the increasing dominance of larger contractors, a result of increasing compliance costs.</li> </ul> <p>This situation may lead Council to be a price leader in contracts, may frustrate the community (because of delays/and or increased costs and rates) and may discourage new external investment.</p> <p>Likelihood – Medium Impact - Medium</p>	<p>By establishing a project management office Council will be better placed to deal with the market and to have effective project management (an outcome valued by both contractors and Council).</p> <p>Council could promote a more consistent, open sharing of intended capital programmes, testing of the market, and agreeing where priorities lie.</p> <p>Council could also help increase the supply of contractors by</p> <ul style="list-style-type: none"> <li>(a) running apprenticeships,</li> <li>(b) insisting on engagement of local contractors as part of awarding a contract and</li> <li>(c) sponsoring workshops to clarify compliance requirement for local contractors.</li> </ul>

<sup>3</sup> See also risk 10.

<p><b>5. Financial stability is lost</b></p> <p>The risk is that Council's financial projections, in terms of operating expenditure and revenue, prove substantially incorrect. This could require a substantial increase in rates and increase the cost of borrowing. This could arise from unanticipated but unavoidable expenditure which is not covered by insurance, including legal costs. Council is fortunate in almost entirely avoiding the impact of weather-tightness failure but the recent exposure of the historic Putorino landfill (and an appreciation there are others) is an example of an unexpected issue.</p> <p>An associated risk is that insurance cover is insufficiently targeted</p> <p>Likelihood – Low Impact – High</p>	<p>Council's current prudent approach means that all operating expenditure is funded through rates and not by loan. By ensuring that projected capital expenditure on planned new works or upgrades is kept below the borrowing threshold provides headroom should Council need additional funds to address a previously unknown issue.</p> <p>While Council cannot influence the state of international markets and commodity prices, it needs to be sensitive to the impact on these on local businesses and developers.</p> <p>Council benefits from joint procurement of insurance with other councils. However, this increasingly requires accurate documentation of asset condition (i.e. risk of failure) alongside known natural hazards. Council could run a few scenarios so it understands the extent of cover that would be available for Rangitikei in a range of circumstances.</p>
<p><b>6. Regulatory effectiveness is questioned</b></p> <p>The risk is that Council loses community confidence that it is being consistent and fair in exercising its regulatory responsibilities, including building and resource consents. That may arise if different responses are provided depending on where a matter is raised – i.e. an elected member, the chief executive, regulatory staff or customer service staff or where there is consistent failure to meet the prescribed timelines.</p> <p>Likelihood – High Impact - Medium</p>	<p>Council may be about the extent of this risk since it is a matter of holding a balance between (i) development and facilitating initiatives and (ii) compliance with central government requirements and Council bylaws and policies.</p> <p>One way to test the community's appreciation of this risk could be to offer an amnesty period to those who knew or thought it possible that they (or someone else) was in breach of regulations. During that period Council could facilitate compliance by providing advice and/or reducing or waiving its fees.</p> <p>Longer-term, it would be beneficial to establish (and publicise) the decision-making and discretion and appeal processes – with the latter being public</p>

	reported, either in a Council (Committee) meeting or through the Council website.
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<p><b>7. Climate change responsiveness is ineffective</b></p> <p>The risk is that Council does not take sufficient steps to protect the community against the impacts of increasingly severe weather events and erosion</p> <p>Likelihood – Low/Medium Impact – Low/Medium</p>	<p>Council is already taking a more proactive stance in its roading programme by increasing expenditure on larger culverts and more stringent oversight of their maintenance and of roadside drains. The strategic look being taken over stormwater will also mean Council is more informed about the points of greatest risk and failure.</p> <p>The request from Kauangaroa Marae for dialogue and support from Council for relocation might be a prompt to reopen dialogue about Whangaehu and also to reconsider the likely scenario at Scotts Ferry and Koitiata, both of which are at risk from sea level rise,</p> <p>Council could develop and implement a plan to reduce its own carbon footprint, looking to engage local businesses in similar efforts.</p>
<p><b>8. Business continuity is compromised</b></p> <p>The risk is that Council suffers a cyber-attack which leads to compromised integrity and/or loss of information. However, there are lesser (but more likely) risks from staff anywhere in the organisation who lack training and understanding how to use Council's IT systems and manage their record-keeping in a consistent and adequate fashion. That increases cost to the Council in trying to find relevant information and may mean that records critical to establishing what Council did and why cannot be found and disclosed.</p> <p>While Archives Central houses most of the Council's pre-1989 records, some of the more recent hard-copy records (including</p>	<p>Council has a range of protective barriers and procedures to minimize the likelihood of a cyber-attack. This includes an increasing robust back-up procedure so that if data is lost or compromised, it can be recovered.</p> <p>Increasing staff knowledge of safe IT protocols and sound records management practices would reduce the risk of information unable to be found.</p> <p>An information audit could be a useful early step in understanding the extent of this risk.</p> <p>The information systems strategic plan now being developed is a key mechanism.</p>

<p>building consent files) are unprotected from fire.</p> <p>Likelihood – Medium/High Impact – High</p>	
<p><b>9. Obligations with health and safety and environmental protection are not met.</b></p> <p>The risk is that staff or the public are injured or killed or there is damage to the environment in the course of Council carrying out its work, and that there substantial fines imposed on Council as a result.</p> <p>Likelihood – Low Impact – High</p>	<p>This is a sector-wide risk, with no relationship to the size of councils or whether they are primarily urban or rural.</p> <p>The Chief Executive is committed to establishing and maintaining a strong health and safety culture within the organisation ('what you walk past you accept') is essential. A new health and safety engagement process has been undertaken so all staff members are involved. All members of the Senior Leadership Team will receive intensive training on this topic during the next six months.</p> <p>Environmental protection has a high dependency on regular maintenance of Council assets, especially wastewater, and management of contractor and staff working in sensitive areas.</p>
<p><b>10. Changes to government legislation are transformational</b></p> <p>The risk is that new or amended legislation, regulations or policy statements cause systemic changes in affordability to the local government sector.</p> <p>For example, the proposed freshwater reforms could have the following impacts:</p> <ul style="list-style-type: none"> <li>a) the annual GDP contribution from dairying could shrink from \$350 million to \$50 million;</li> <li>b) reduced pasture land and increasing forestry (on the way it is presently rated) could mean that rates might need to rise 30% to provide the current level of services and facilities (including roads);</li> </ul>	<p>This is a sector-wide risk, but greatest for non-metro councils.</p> <p>Longer timeframes enable alternative productive uses of land to be implemented.</p> <p>To what extent is Council willing to facilitate such changes, including investment?</p> <p>If forestry becomes the dominant rural enterprise, how feasible is it for Council to rate public roads servicing such blocks on a differential basis (so that the costs are not District wide) or to remove such roads from the public network (so that Council would no longer bear the costs of maintenance)?</p>

<p>c) reduction in farm incomes could be 30% which will result in diminished investment, loss of productivity and closure of farms.</p> <p>Likelihood – High Impact – High</p>	
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26 September 2019, updated and adopted 5 December 2019.

# Attachment 3



31 Amesbury Street  
PO Box 149, Palmerston North 4440

22 July 2020

Andy Watson  
Mayor  
Rangitikei District Council  
Private Bag 1102  
Marton 4741

Dear Andy

## **Audit Engagement Letter**

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all “public entities”, including Rangitikei District Council, under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Chris Webby, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audits of the Rangitikei District Council’s financial statements and performance information. We will be carrying out these annual audits on the Auditor-General’s behalf, for the years ending 30 June 2020 to 30 June 2022.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Council and me, as the Appointed Auditor, for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the Rangitikei District Council’s financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit (typically those matters will relate to issues of financial management and accountability).

We will carry out the audit in accordance with the Auditor-General’s Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether the Rangitikei

District Council's financial statements and performance information are free from material misstatement. The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

## **Your responsibilities**

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

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- providing us with:
  - access to all information relevant to preparing the financial statements and performance information such as records, documentation, and other information;
  - all other information, in addition to the financial statements and performance information, to be included in the annual report;
  - additional information that we may request from the Rangitikei District Council for the purpose of the audit;
  - unrestricted access to Council members and employees that we consider necessary; and
  - written confirmation concerning representations made to us in connection with the audit.

In addition, the Council is responsible:

- for the preparation of the summary financial statements and summary performance information;
- for making the audited summary financial statements and summary performance information readily available to the intended users of that information; and
- for including our audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that we have reported on that information.

The Council's responsibilities extend to all resources, activities, and entities under its control. We expect that the Council will ensure:

- the resources, activities, and entities under its control have been operating effectively and efficiently;

- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;
- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the Council and/or the individuals within the Rangitikei District Council with delegated authority, to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred – regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The Council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Appendix 1. Appendix 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the Council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

The Council should have documented policies and procedures to support its responsibilities. It should also regularly monitor performance against its objectives.

## **Our responsibilities**

### ***Carrying out the audit***

We are responsible for forming an independent opinion on whether the financial statements of the Rangitikei District Council:

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

We are also responsible for forming an independent opinion on whether the performance information of Rangitikei District Council:

- presents fairly, in all material respects, the performance for the financial year, including:
  - its performance achievements as compared with forecasts included in the Long Term Plan or Annual Plan for the financial year;

- its actual revenue and expenses as compared with the forecasts included in the Long Term Plan or Annual Plan for the financial year; and
- complies with generally accepted accounting practice in New Zealand.

In addition to the above we are also responsible for forming an independent opinion whether:

- the funding impact statement of Rangitikei District Council, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the annual plan; and
- the statement about capital expenditure for each group of activities of Rangitikei District Council, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the annual plan; and
- the funding impact statement for each group of activities of Rangitikei District Council, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Long-term plan.

We are also required to report on whether the Rangitikei District Council has:

- complied with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report; and
- made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rangitikei District Council's internal controls. However, we will communicate to you in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the Council and the Rangitikei District Council have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the Council obtained and applied the resources of the Rangitikei District Council in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the Council and the Rangitikei District Council have met Parliament’s and the public’s expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of a lack of financial prudence.

### ***Our independence***

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of Rangitikei District Council; including being independent of management personnel and members of the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with the objectivity of the audit team and the Audit New Zealand.

To protect our independence, specific limitations are placed on us in accepting engagements with the Council other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any other engagements must be the subject of a separate written arrangement between the Council and me or Audit New Zealand.

### ***Reporting***

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee of the audit report.

In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This audit report will contain an opinion that provides the same level of assurance as the audit report on the full financial statements and full performance information.

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

Please note that the Auditor-General may publicly report matters that are identified in the annual audit, in keeping with section 21 of the Public Audit Act 2001.

### **Next steps**

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the letter in the space provided and returning a copy to me. The terms will remain effective until a new Audit Engagement Letter is issued.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible. If after contacting me you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Chris Webby'.

Chris Webby  
Appointed Auditor  
On behalf of the Auditor-General

I acknowledge the terms of this engagement and that I have the required authority on behalf of the Council.

Signature:

Name: Andy Watson

Title: Mayor

Date: .....

## Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor

Responsibilities of the Council	Responsibility of the Appointed Auditor
<b>Responsibilities for the financial statements and performance information</b>	
<p>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</p> <p>You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p>	<p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> <li>• present fairly, in all material respects: <ul style="list-style-type: none"> <li>○ the financial position; and</li> <li>○ the financial performance and cash flows for the financial year;</li> </ul> </li> <li>• comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Standards.</li> </ul> <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> <li>• presents fairly, in all material respects, the performance for the financial year, including: <ul style="list-style-type: none"> <li>○ the performance achievements as compared with forecasts included in the Long Term Plan or Annual Plan for the financial year; and</li> <li>○ the actual revenue and expenses as compared with the forecasts included in the Long Term Plan or Annual Plan for the financial year.</li> </ul> </li> <li>• complies with generally accepted accounting practice in New Zealand.</li> </ul> <p>In addition to the above we are also responsible for forming an independent opinion whether:</p> <ul style="list-style-type: none"> <li>• the funding impact statement of Rangitikei District Council, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the annual plan; and</li> </ul>



Responsibilities of the Council	Responsibility of the Appointed Auditor
	<ul style="list-style-type: none"> <li>the statement about capital expenditure for each group of activities of Rangitikei District Council, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the annual plan; and</li> <li>the funding impact statement for each group of activities of Rangitikei District Council, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Long-term plan.</li> </ul> <p>We are also required to report on whether Rangitikei District Council has:</p> <ul style="list-style-type: none"> <li>complied with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report; and</li> <li>made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.</li> </ul> <p>We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements and performance information.</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
	<p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence the audit report addressee's overall understanding of the financial statements and performance information.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for you to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> <li>• the appropriateness of accounting policies used and whether they have been consistently applied;</li> <li>• the reasonableness of the significant accounting estimates and judgements made by those charged with governance;</li> <li>• the appropriateness of the content and measures in any performance information and ensuring this remains appropriate from when initially assessed in the Long-term plan;</li> <li>• the adequacy of the disclosures in the financial statements and performance information; and</li> <li>• the overall presentation of the financial statements and performance information.</li> </ul> <p>We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> <li>• the adoption of the going concern basis of accounting is appropriate;</li> <li>• all material transactions have been recorded and are reflected in the financial statements and performance information;</li> </ul>

Responsibilities of the Council	Responsibility of the Appointed Auditor
	<ul style="list-style-type: none"> <li>all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and</li> <li>uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information.</li> </ul> <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p>
Responsibilities for the accounting records	
<p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> <li>correctly record and explain the transactions of Rangitikei District Council;</li> <li>enable you to monitor the resources, activities, and entities under your control;</li> <li>enable the Rangitikei District Council's financial position to be determined with reasonable accuracy at any time;</li> <li>enable you to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and</li> <li>are in keeping with the requirements of the Commissioner of Inland Revenue.</li> </ul>	<p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
<b>Responsibilities for accounting and internal control systems</b>	
<p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of Rangitikei District Council), supported by written policies and procedures, and designed to provide reasonable assurance as to the integrity and reliability of financial and performance information reporting.</p>	<p>The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information.</p> <p>We will report to you separately, on any significant weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.</p>
<b>Responsibilities for preventing and detecting fraud and error</b>	
<p>The responsibility for the prevention and detection of fraud and error rests with you, through the implementation and continued operation of adequate internal control systems (appropriate to the size of Rangitikei District Council) supported by written policies and procedures.</p> <p>We expect you to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect you to consider reporting all instances of actual, suspected, or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect you to immediately inform us of any suspected fraud where you, and/or any individuals within the Rangitikei District Council with delegated authority have a reasonable basis that suspected fraud has occurred - regardless of the amount involved.</p>	<p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> <li>• obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and</li> <li>• Report to you any significant weaknesses in internal control that come to our notice.</li> </ul> <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected, or alleged fraud.</p> <p>As part of the audit, you will be asked for written confirmation that you have disclosed all known instances of actual, suspected, or alleged fraud to us.</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
	<p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from you, or management, or by any other means, we will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report the fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so, if it is appropriate for the purposes of protecting the interests of the public.</p>
<b>Responsibilities for compliance with laws and regulations</b>	
<p>You are responsible for ensuring that Rangitikei District Council has systems, policies, and procedures (appropriate to the size of Rangitikei District Council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of Rangitikei District Council are complied with. Such systems, policies, and procedures should be documented.</p>	<p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> <li>• the relevance of the law or regulation to the audit;</li> <li>• our assessment of the risk of non-compliance;</li> <li>• the impact of non-compliance for the addressee of the audit report</li> </ul> <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws and regulations.</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
<b>Responsibilities to establish and maintain appropriate standards of conduct and personal integrity</b>	
<p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a “Code of Conduct” and, where applicable, support the “Code of Conduct” with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted “Codes of Conduct” that apply to the public sector.</p>	<p>We will have regard to whether you maintain high standards of conduct and personal integrity – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of Rangitikei District Council may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to you and to the Auditor-General all significant departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p> <p>The Auditor-General, on receiving a report from us, may, at his discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p>
<b>Responsibilities for conflicts of interest and related parties</b>	
<p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p>	<p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions. Depending on the circumstances, we may enquire whether you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p>

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

## **Appendix 2: Health and safety of audit staff**

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015 we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a safe work environment for our audit staff. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.



31 Amesbury Street  
PO Box 149, Palmerston North 4440

22 July 2020

Andy Watson  
Mayor  
Rangitikei District Council  
Private Bag 1102  
Marton 4741

Ref: EN/LCA/03-0030 P241  
Copy: Director Auditor Appointments  
Office of the Auditor-General  
PO Box 3928  
Wellington 60140

Dear Andy

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

**1 Introduction**

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

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

- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

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

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

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

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

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

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

## **3 Entity covered by this proposal**

This proposal covers the audit of Rangitikei District Council.

## 4 Key members of the audit team

Appointed Auditor	Chris Webby
Engagement Quality Reviewer (EQR)	Scott Tobin
Audit Manager	Alistair Love

## 5 Estimated audit hours

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

Audit team member	2019 budget	2019 actual*	2020
Appointed Auditor	65	151	85
EQR Director	0	22	14
Audit Manager	93	149	115
Other CA qualified staff	200	537	220
Non CA qualified staff	320	450	400
<b>Other specialists</b>			
Sector specialist support	7	7	7
Information systems	20	25	20
Tax	1	1	1
Specialist Audit Assurance Services	0	12	0
<b>Total audit hours</b>	<b>706</b>	<b>1,354</b>	<b>862</b>

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

The major reasons for actual audit hours for 2019 being higher than budget is due to:

- Base hours from the previous audit proposal not being sufficient to efficiently audit;
- Infrastructure revaluation not being included in the budget. The revaluation was scheduled to be performed in the 2020 financial year but due to a material movement, the revaluation was required in the 2019 financial year (one year early). This required a lot of time to gain assurance over the valuations;

- The full annual report was not ready at the commencement of the final audit and there were a number of changes required to the document, e.g. a lot of performance information measures included last year's results and targets; and
- A number of staff changes in the audit team like the audit supervisor.

## 5.1 Reasons for changes in audit hours

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

Reasons for changes in audit hours compared to estimated audit hours set out in previous APL:	2020
<p>Changes within the entity, or in its environment – such as changes in the entity's activity, systems, risk profile, or complexity, which have resulted in a change to the size or complexity of the audit.</p> <ul style="list-style-type: none"> <li>• <b>Sensitive expenditure</b> – All councils operate in an environment where ratepayers and other stakeholders expect high levels of ethical behaviour and want more transparency over how this is managed. This means they need robust policies and processes in areas such as fraud, bribery and corruption, and sensitive expenditure. They also need to demonstrate that they manage these areas effectively.</li> </ul> <p>The increased sensitivity and risk in these areas, which is also reflected in the OAG briefs to auditors, has flowed through to our audit and the work we do. In particular, we will now be undertaking additional testing of the Chief Executive and Mayor's expenses every year.</p> <ul style="list-style-type: none"> <li>• <b>Asset valuations</b> – funding challenges, combined with greater community awareness and expectations over the resilience and performance of core assets, have increased the importance of, and risks associated with, council's asset related practices such as continually improving its asset condition information and developing more advanced management practices. These in turn increase the complexity of council's asset revaluations and fair value assessments.</li> </ul> <p>We have increased the time required for this work because of the significant amount of time required to cover off the risks associated with this.</p> <p>Our hours and fees are based on one revaluation for each class of asset in the 3 year period and are incorporated into our overall hours and spread evenly across the three years.</p>	60

Reasons for changes in audit hours compared to estimated audit hours set out in previous APL:	2020
<p>Any additional revaluations we are required to audit will be charged separately.</p> <ul style="list-style-type: none"> <li>• <b>Rates</b> – Recent court cases have highlighted the risks council faces in relation to its rating processes. Seemingly minor procedural or documentation errors have the potential to undermine council's major revenue stream. Council's increased risks have impacted on our approach to auditing Rates, and we now perform more testing on both individual rates and the information held in the RID.</li> <li>• <b>Non-financial reporting</b> – in the light of recent events, including natural disasters, the results of the Havelock North water enquiry, and the impacts of climate change, ratepayers and other stakeholders focus on local authorities' core services has increased. This has increased our assessment of risk in these areas which in turn has increased both the number of measures we identify as material and the amount of testing we do on these.</li> </ul> <p>We have increased the time required for this work because more work is required to cover the risks of results for some of the Council's performance measures that are recorded by external parties.</p> <p>In addition, the mandatory performance measures present a heightened risk to council's reporting due to the range of interpretation and non-compliance issues that have been identified across the sector in recent years. We have increased the time required for this work to cover off these risks.</p>	
Additional hours required to complete an efficient and quality audit of your Council	96
<b>Total change in audit hours</b>	<b>156</b>

## 6 Proposed audit fees

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

Structure of audit fees	2019 budget fees	2019 actual fees charged (*)	2020
	\$	\$	\$
Net audit fee	111,488	111,488	113,160
OAG Audit Standards and Quality Support fee	10,244	10,244	10,398

Structure of audit fees	2019 budget fees \$	2019 actual fees charged (*) \$	2020 \$
<b>Total audit fee (excluding disbursements)</b>	<b>121,732</b>	<b>121,732</b>	<b>123,558</b>
Estimated disbursements	5,500	2,348	5,500
<b>Total billable audit fees and charges</b>	<b>127,232</b>	<b>124,080</b>	<b>129,058</b>
GST	19,085	18,612	19,359
<b>Total (including GST)</b>	<b>146,317</b>	<b>142,692</b>	<b>148,417</b>

\* **Note** – 2019 actual audit fees charged were \$121,732, compared to our 2019 audit costs of \$218,695. These costs have not been adjusted to eliminate any matters arising from auditor inefficiencies.

The estimated cost of an efficient audit on a full recovery basis for your Council in 2020 is in the range of \$133,874 to \$143,874, that is, about \$17,142 or 14% more than the 2019 fee. Over the next two years (2021 and 2022) we expect that the audit fee charged will progressively move to more fairly reflect our actual costs of performing your Council's audit.

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG Audit Standards and Quality Support fees. As set out in section 2, these fees have been held at a 1.5% increase over the agreed audit fee for 2019.

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

## 7 Assumptions relating to our audit fee

You are responsible for the production of your financial statements and anything else that must be audited. Our proposed audit fees are based on the assumption that:

- you will provide to us, in accordance with the agreed timetable, the complete information required by us to conduct the audit;
- your staff will provide us with an appropriate level of assistance;
- your organisation's annual report (including financial statements and statements of service performance) will be subject to appropriate levels of quality review by you before being submitted to us for audit. In previous audits we have raised the timeliness and quality review as needing improvement;

- your organisation’s financial statements will include all relevant disclosures;
- we will review up to two sets of draft annual reports, one printer’s proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website). In previous audits we have had to review more than two sets of draft annual reports;
- there are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us);
- there are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work (other than as specified in table 5.1);
- there are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above; and
- there are no significant changes to the agreed audit arrangements that change the scope of, timing of, or disbursements related to, this audit.

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

## 7.1 Exclusions

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

- The future impact of changes to accounting standards, including:
  - PBE IPSASs 34 to 38;
  - *IFRS 9* – should the Council early adopt; and
  - PBE FRS 48.
- Changes to auditing standards including; NZ AS 1, ISA (NZ) 315 and ISA (NZ) 540.
- The government’s three waters review, including its announcement of a Crown Entity to regulate drinking water.
- Any future impact on the Council’s reporting due to the re-introduction of the four well-beings into the Local Government Act in May 2019.

- The Productivity Commission’s review of local government funding and financing.
- The impacts of future growth within the Council’s area.
- The impacts of any new initiatives or funding sources related to either the Provincial Growth Fund or the Housing Infrastructure Fund.

## **8 What the OAG Audit Standards and Quality Support fees cover**

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

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

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

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

## **9 Certifications required by the Auditor-General**

We certify that:

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

## **10 Conclusion**

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



If you require any further information, please do not hesitate to contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely



Chris Webby  
Appointed Auditor  
Audit New Zealand

---

I accept the audit fee for the audit of the 2020 financial year as stated above.

Full name: \_\_\_\_\_ Position: \_\_\_\_\_

Authorised signature: \_\_\_\_\_ Date: \_\_\_\_\_

Entity name: \_\_\_\_\_

**Actions to take when agreement has been reached:**

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to: Chris Webby  
PO Box 149  
Palmerston North 4440

# Audit plan

## Rangitikei District Council

For the year ended 30 June 2020

## Audit plan

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

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Reporting protocols .....	10
Audit logistics .....	11
Expectations.....	13

The contents of this plan provided the basis of discussion when we met with you on 2-5 June 2020.

We will be happy to elaborate further on the matters raised in this plan.

We have left most audit dates to be confirmed while we evaluate the impact of the COVID-19 pandemic on the audit timetable. This evaluation will be informed by management's assessment of the impact on the reporting timetable. We will advise you as soon as we can confirm our timetable.

Our work improves the performance of, and the public's trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely



Chris Webby  
Appointed Auditor  
22 July 2020

# 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
<b>COVID-19 implications</b>	
<p>On 11 March 2020 the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic. The New Zealand Government has taken steps to deal with the spread of COVID-19 which has included significant restrictions on the movement and interaction of people within New Zealand.</p> <p>This will have various potentially significant effects on individuals, communities, the economy, businesses, the wider public sector and each public sector entity.</p> <p>It is important that the District Council considers the impact of this event on various aspects of its operations and the information included in the annual report.</p> <p>We expect the District Council to complete an assessment of the impact of COVID-19 on its operations and any effect this has on the financial and performance information included in the annual report, including any additional disclosures which may need to be included. In addition, we expect there will be some significant variances between budgeted and actual figures/results which will require explanation.</p> <p>This assessment may also include the effect of COVID-19 on matters such as revenue recognition, valuation of assets, and the provision for doubtful debts.</p> <p>We are publishing Bulletins to provide high-level guidance on the implications of COVID-19 on public sector reporting, including revaluations of property plant and equipment and investment property, financial statements and performance information,</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• Continue discussions with management about the impact of COVID-19 on the District Council and it's control environment;</li> <li>• Consider the District Council's impact assessment of COVID-19 on the financial statements and performance information and consider the effect this has on our audit approach; and</li> <li>• Consider the completeness and accuracy of disclosures contained within the annual report relating to COVID-19.</li> </ul> <p>Where new audit risks or issues relating to COVID-19 are identified we will advise you of these separately.</p>

Audit risk/issue	Our audit response
<p>refer to <a href="https://auditnz.parliament.nz/good-practice/public-sector-reporting">https://auditnz.parliament.nz/good-practice/public-sector-reporting</a></p> <p>We will also advise you when they are available.</p> <p>The Financial Reporting Authority (FMA) have published a document outlining what they have seen in their recent reviews of financial reporting in FMA reporting entities, and setting out its expectations and areas that entities should consider when preparing financial statements, particularly in light of the COVID-19 situation. The document would be equally useful for the District Council when preparing its financial statements, refer to <a href="https://www.fma.govt.nz/assets/Guidance/2020-Financial-reporting-reviews.pdf">https://www.fma.govt.nz/assets/Guidance/2020-Financial-reporting-reviews.pdf</a></p>	
<b>Bulls Community Centre</b>	
<p>Development of the Bulls Community Centre commenced during the prior financial year and is expected to be completed in the next financial year.</p> <p>Due to the significance of the project we undertook a review last year of the project management practises being used by the District Council. Our review noted a number of opportunities for the District Council to improve its project management practices. We will follow up with management on the progress they have made implementing our recommendations.</p> <p>The District Council is continuing to fundraise for the cost of the project through grants and donations. There is judgement required to determine when to recognise a grants as revenue and the amount to be recognised. The accounting treatment of each grant is dependent on the conditions or milestones included in the grant agreement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• ensure the costs relating to the project have been correctly accounted for;</li> <li>• ensure the grants and donations received have been correctly accounted for; and</li> <li>• obtain an update on the progress made by Management to implement our recommendations on project management.</li> </ul>
<b>Fair value of Property, Plant and Equipment</b>	
<p>PBE IPSAS 17 <i>Property, Plant and Equipment</i> requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p>	<p>Where revaluations are undertaken, we will review whether the District Council has correctly accounted for the revaluation of those asset classes. This will include ensuring:</p>

Audit risk/issue	Our audit response
<p>The District Council periodically revalues its infrastructure and land and buildings assets. The last revaluations were:</p> <ul style="list-style-type: none"> <li>• Land and buildings – 1 July 2016</li> <li>• Infrastructure assets – 30 June 2019</li> </ul> <p>We understand that land and buildings will be revalued as at 1 July 2019.</p> <p>In a non-revaluation year the District Council must consider whether there has been any significant movement in the fair value of the assets.</p> <p>We expect that the District Council will have done a comprehensive analysis to determine whether there is a significant variance between the fair value as at 30 June 2020 and the carrying value. If the variance is significant it would trigger the need for the District Council to revalue the assets.</p>	<ul style="list-style-type: none"> <li>• The underlying assumptions are consistent with the District Council's management and knowledge of the assets;</li> <li>• Relevant valuation and accounting standards have been complied with (in particular PBE IPSAS 17 <i>Property, Plant and Equipment</i>); and</li> <li>• The appropriate accounting entries have been made.</li> </ul> <p>We will review the District Council's assessment of whether there is any significant difference between the carrying amount and fair value of its assets.</p>
<b>Impairment of Property, Plant and Equipment</b>	
<p>PBE IPSAS 21 <i>Impairment of Non-Cash Generating Assets</i> and PBE IPSAS 26 <i>Impairment of Cash Generating Assets</i> require the District Council to assess assets held at cost for indicators of impairment on an annual basis.</p> <p>We expect that the value of work in progress (WIP) on projects that span an extended period of time to be assessed for impairment regularly over the period of the project.</p>	<p>We will review the Council's impairment assessments of its property, plant and equipment held at cost and WIP.</p>
<b>PBE IPSAS 35-38 – new group accounting standards</b>	
<p>Public benefit entities are required to adopt a new suite of IPSAS based group accounting standards for periods beginning on or after 1 January 2019.</p> <p>The standards for adoption are as follows:</p> <ul style="list-style-type: none"> <li>• PBE IPSAS 35 – <i>Consolidated Financial Statements</i>;</li> <li>• PBE IPSAS 36 – <i>Investments in Associates and Joint Ventures</i>;</li> <li>• PBE IPSAS 37 – <i>Joint Arrangements</i>; and</li> <li>• PBE IPSAS 38 – <i>Disclosure of interests in other entities</i>.</li> </ul>	<p>Management should prepare an impact assessment which considers whether these new standards change how the District Council currently accounts for and discloses controlled entities, associates, joint ventures and joint arrangements.</p> <p>We are responsible for reviewing management's work, and ensuring the adjustments are reasonable and complete. We encourage the District Council to share its impact assessment with us early in the audit process so we can agree the accounting treatment and adjustments in a timely manner.</p>

Audit risk/issue	Our audit response
<p>The key changes arising from these new standards are:</p> <ul style="list-style-type: none"> <li>varied the definition of control that may result in additional entities which were previously accepted as not controlled now being assessed as controlled;</li> <li>introduced the concept of an investment entity;</li> <li>the Joint Arrangement standard has changed the classifications and subsequent treatment of joint arrangements; and</li> <li>a new standard which is specific to disclosures on an entity's interest in other entities. This has increased the amount of disclosures required in an entity's financial statements.</li> </ul>	
<b>The risk of management override of internal controls</b>	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>testing the appropriateness of selected journal entries;</li> <li>reviewing accounting estimates for indications of bias; and</li> <li>evaluating any unusual or one-off transactions, including those with related parties.</li> </ul>

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

## Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. In this regard, we will discuss the following questions with you:

- What role does Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to Council? Has appropriate action been taken on any lessons learned?

### ***Our responsibility***

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at [oag.govt.nz/reports/fraud-reports](https://oag.govt.nz/reports/fraud-reports).



## Our audit process

### Initial planning

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

### Understand your business and environment

We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of Rangitikei District Council, your business, and the environment you operate in.

### Assess audit risk

We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.

### Evaluate internal controls

We update our understanding of internal controls relevant to the audit. This includes reviewing the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is done during the initial audit visits. We evaluate internal controls relevant to the audit for the whole financial year, so we consider internal controls relevant to the audit at all visits.

### Finalise the audit approach

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

### Gather audit evidence

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

### Conclude and report

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

## Materiality

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

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

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

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities.

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

## Misstatements

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

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from representatives of the Council that specify the reasons why the corrections will not be made.

## Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

## **How we consider compliance with laws and regulations**

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

## **Wider public sector considerations**

A public sector audit also examines whether:

- the District 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 District Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the District 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 District Council or by one or more of its members, office holders, or employees.

# Reporting protocols

## Communication with management and the Council



We will meet with management and the Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

## Reports to Council



We will provide a draft of all reports to management and Council for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to Council.

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:

Chris Webby	Appointed Auditor
Scott Tobin	Engagement Quality Review Director
Alistair Love	Audit Manager
Yui-teng Chan	Audit Supervisor

The Engagement Quality Review (EQR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

## Timetable



We have left most dates to be confirmed while we evaluate the impact of the COVID-19 pandemic on the audit timetable. This evaluation will be informed by management's assessment of the impact on the reporting timetable. We will advise you as soon as we can confirm our timetable.

Interim audit	25 March 2020
Second interim audit begins	29 June 2020
Draft interim management report issued	17 July 2020
Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures	5 October 2020
Final audit begins	12 October 2020
Final financial statements available, incorporating all the amendments agreed to between us	TBC
Verbal audit clearance given	TBC
Annual report available, including any Chair and Chief Executive's overview or reports	TBC
Audit opinion issued	TBC
Draft report to Council issued	TBC

## Expectations



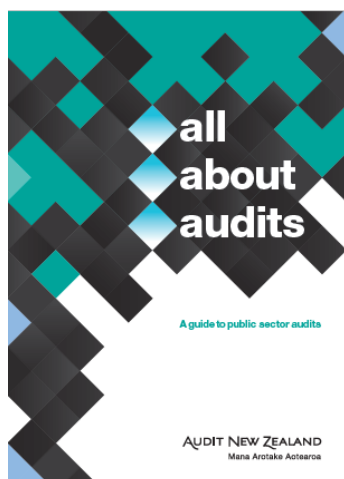
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

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

We expect that:

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

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to help explain the audit process:



## Health and safety



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

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

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.



## AUDIT NEW ZEALAND

Mana Arotake Aotearoa

[www.auditnz.parliament.nz](http://www.auditnz.parliament.nz)

PO Box 149  
31 Amesbury Street  
Palmerston North 4440  
Phone: 04 496 3099



# Attachment 4



B.29[20c]

## Insights into local government: 2019



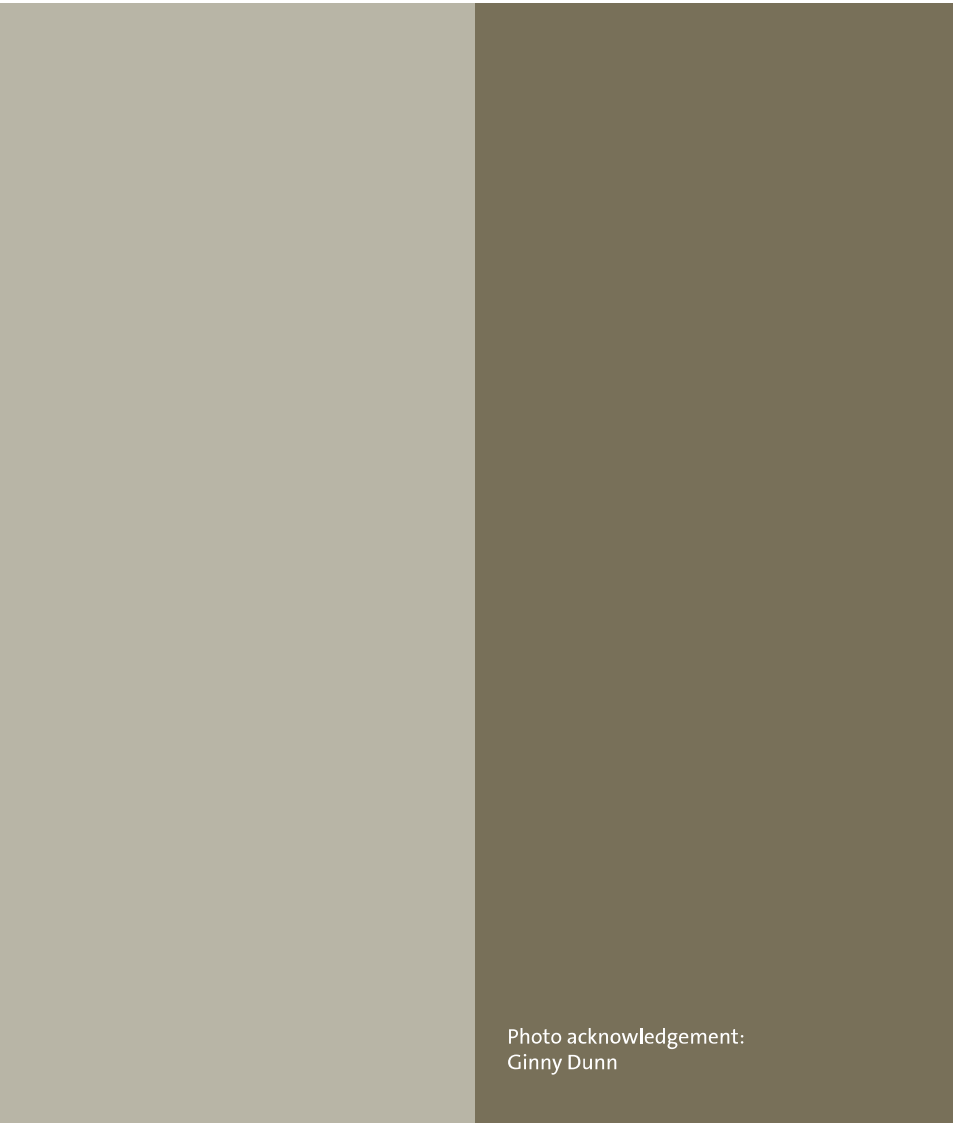


Photo acknowledgement:  
Ginny Dunn

# Insights into local government: 2019

Presented to the House of  
Representatives under section 20 of  
the Public Audit Act 2001.

June 2020

ISBN 978-0-9951321-3-9

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# Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

At the time the content of this report was prepared, Covid-19 had not reached New Zealand. Covid-19 has severely disrupted our way of life. The pandemic is a stark reminder of how quickly risk can appear. Although the response to Covid-19 has, quite rightly, been a national one, communities will be looking for local leadership more than ever as we move from response to recovery.

The effects of Covid-19 will create financial stress for many in the community and for the councils that serve them. The full implications are still unclear. However, what is known is that many of the previous assumptions councils made about the future will no longer be reasonable.

Therefore, the need for long-term planning has never been more important than it is now. The recovery from Covid-19 is likely to take many years. Councils will need to be clear with their communities about their revised plans, and the implications of these plans, during this recovery. To do this will require strong governance and an appropriate focus on risk management.

## Ongoing and new risks and challenges

Before Covid-19, councils were already facing many complex and difficult issues and risks. Natural hazard events were increasing in frequency and severity, with the effects of climate change becoming more evident. Growth pressures were becoming common throughout the country, not just in the main centres. In some instances, historical underinvestment in core infrastructure, which is often combined with a lack of a full appreciation of the current state of infrastructure, has resulted in asset failures and service disruptions.

Covid-19 has added a significant additional challenge, with several implications for councils. Effective risk management policies and practices are now more vital than ever. The knowledge, governance, and dialogue needed to effectively manage risk have not changed, but have now taken on more significance. To continue to achieve their strategic objectives, I expect councils to:

- understand the expectations central government, ratepayers, and communities have for the services they provide;
- understand the current and predicted asset condition and performance of their assets, as well as future asset needs, particularly for critical assets;
- be properly informed about risks and opportunities to service delivery in order to make relevant decisions and manage the trade-offs of risks with cost and level of service;

- discuss risks, opportunities, and trade-offs with their communities. To do this effectively, priorities, assumptions, and trade-offs need to be transparent and understandable to communities; and
- make evidence-based decisions to address ongoing and future work programmes.

Councils will need to re-visit their assumptions for each of these areas in the light of Covid-19. Central government also has a role in actively working with councils about matters of shared national interest and risk, such as climate change and Covid-19. However, we have seen strained relationships between central and local government. In our work on water management, we found there was no clear agreement across central and local government about the priorities for water management. Without this agreement, there is increased risk that efforts are not being directed to achieving the same outcomes. The Productivity Commission also made the observation recently that there is a lack of appreciation of each other's roles. This will need to change to support councils in providing essential services to their communities.

This report discusses several trends and developments in 2019 and gives some insights into how councils were managing risks before Covid-19.

### **What we saw in 2018/19**

I remain concerned that councils might not be adequately reinvesting in their critical assets. For some time, my Office has reported that annual renewals spending on assets has been less than the annual depreciation of assets. This is commonly referred to as the renewals gap. This trend continued in 2018/19. Without adequate reinvestment, there is an increasing risk of asset failures and service disruption. I expect each council to turn its mind to the robustness of the renewals gap in its context and the funding implications arising. My auditors will be particularly focusing on that as they consider councils' 2021-31 long-term plans. This is not an issue for only asset managers to resolve – it requires input from others, such as finance and strategic planning staff. More importantly, it requires leadership from councillors. Strategic asset management is complex and needs a council-wide response based on good information.

This report provides an example of good practice by Ōpōtiki District Council, which, aware of the climate-related risks facing its community, worked systematically towards getting better information about its wastewater assets to deliver a cost-effective programme. Many councils already work closely together and learn from each other's experiences. Ōpōtiki District Council's experience is one I hope other councils learn from.



In the 2019 calendar year, 16 councils declared a climate emergency, and most councils focused on aspects of climate-related activity in their 2018/19 annual reports. Increased climate-related events pose significant risks to service delivery and solutions often come with significant costs. Major decisions to address the risks of climate change are required, and there is more to do to get better information to inform those decisions. It is important that councils are transparent with their communities about their current understanding of the risks from climate change, what they are doing already in the areas of mitigation and adaptation, and what other action they propose on behalf of their communities. There is also the need for national leadership.

Audit and risk committees help councils better understand their strategic risks and what they can do to eliminate or mitigate them. I am pleased that almost every council now has an audit and risk committee and more than half of councils have, or are planning to appoint, an independent chairperson. I encourage this because having independent committee members and chairpersons ensures that councils receive impartial advice from people who are not involved in decision-making. We have observed increasingly effective working practices of many audit and risk committees. It has been particularly pleasing to see the way that some councils, notably Auckland Council, have used their audit and risk committees during the Covid-19 pandemic.

The costs, risks, and other effects from Covid-19 will be important considerations for councils now and for the future when preparing their 2021-31 long-term plans. Active, integrated, and honest conversations about risks need to involve councillors, staff, management, communities, and stakeholders. The 2021-31 long-term plans are an opportunity for these conversations to occur. Responding to the risks created by Covid-19 will be a significant challenge, but this disruption will also create new opportunities for councils as they consider ways to innovate and promote the well-being of their communities.

My Office will continue to support councils as they plan for the future, build their resilience, and respond to ongoing and new risks and challenges, including the effects of Covid-19 for their communities.

Nāku noa, nā,



John Ryan  
Controller and Auditor-General

10 June 2020

# 2018/19 at a glance



## Main financial results of all councils

### Total revenue

**\$13.5 billion**

\$6.3 billion from rates

### Total operating expenditure

**\$12.5 billion**

### Total assets

**\$156 billion**

\$137 billion is property, plant, and equipment

### Total liabilities

**\$24.4 billion**

\$17.1 billion is council debt



## Spending on assets of all councils

### Total capital expenditure was \$4.66 billion

Overall, councils spent

**82%**

of their capital expenditure budgets

40 councils spent less than

**80%**

of their capital expenditure budgets

Renewal expenditure was

**79%**

of the amount of depreciation recognised

High-growth councils achieved

**64%**

of their demand-related capital expenditure budgets



## Sector results and activities

### Audit and risk committees



**76** councils have an audit and risk committee.  
**67** have independent committee members or chairpersons.  
**42** councils have independent chairpersons.

### Climate-related actions

**16** councils declared climate emergencies in the 2019 calendar year.



Some are putting new governance arrangements in place to consider climate-related actions.

### Building and resource consents



**34,754** new dwellings consented in the year ended 30 June 2019

*How did councils perform against the 20-day timeliness requirements for consents?*

**42** of **67** councils reported 95% compliance, or better, in processing building consent applications.

**41** of **67** councils reported 95% compliance, or better, in processing non-notified resource consent applications.

### 74 councils

adopted their annual report by the statutory deadline.

**Three** councils that missed the deadline adopted by the end of November 2019, and **one** council adopted by the end of December 2019.

### 65 councils

had clear audit opinions, which meant that there was **positive assurance over their financial and non-financial performance**. Thirteen councils had modified audit opinions, which meant there were matters of concern or information we highlighted.



# How councils responded to forecast infrastructure investment

# 1

- 1.1 In this Part, we discuss how well councils reinvested in their assets, built assets needed for growth, and delivered on their 2018/19 capital expenditure budgets.
- 1.2 The main trend we identified in councils' financial forecasts in their 2018-28 long-term plans (LTPs)<sup>1</sup> was that councils were planning to invest in their assets at levels not seen before. To have a realistic chance of achieving their capital expenditure programme budgets, we said that councils needed to carefully plan, prioritise, and monitor their budgets.
- 1.3 Councils are required to disclose their capital expenditure in three categories:
  - replacing or renewing assets;
  - building new assets to meet additional demand; and
  - improving service levels.
- 1.4 Most of the planned capital expenditure in councils' 2018-28 LTPs was to replace or renew council assets. However, this expenditure was less than the forecast depreciation charge for the 10-year period. This indicated to us that, as a whole, councils did not appear to be forecasting to adequately reinvest in their assets. We said that this could result in the quality of their assets deteriorating.
- 1.5 If councils continue to underinvest in their assets, the cost of reinvestment to reinstate the service potential of existing assets might fall on future generations. We have been concerned about this for some time.
- 1.6 We also identified that "high-growth"<sup>2</sup> councils had challenges to address, including how they would fund the planned capital expenditure.
- 1.7 Therefore, we analysed councils' financial information to see what happened in 2018/19, the first year of the 2018-28 LTP period. Specifically, we asked:
  - How well are councils reinvesting in their assets?
  - How well did councils build the assets they need for ongoing growth?
  - How well are councils delivering on their capital expenditure budgets?

## How we carried out our analysis

- 1.8 To carry out our analysis, we considered the local government sector both as a whole and as five sub-sectors. The sub-sectors were:
  - metropolitan councils;
  - Auckland Council (considered separately from other metropolitan councils because of its size);
  - provincial councils;

1 Office of the Auditor-General (2019), *Matters arising from our audits of the 2018-28 long-term plans*, Wellington.

2 High-growth councils are defined under the National Policy Statement on Urban Development Capacity. See also Appendix 2.

- regional councils; and
- rural councils.

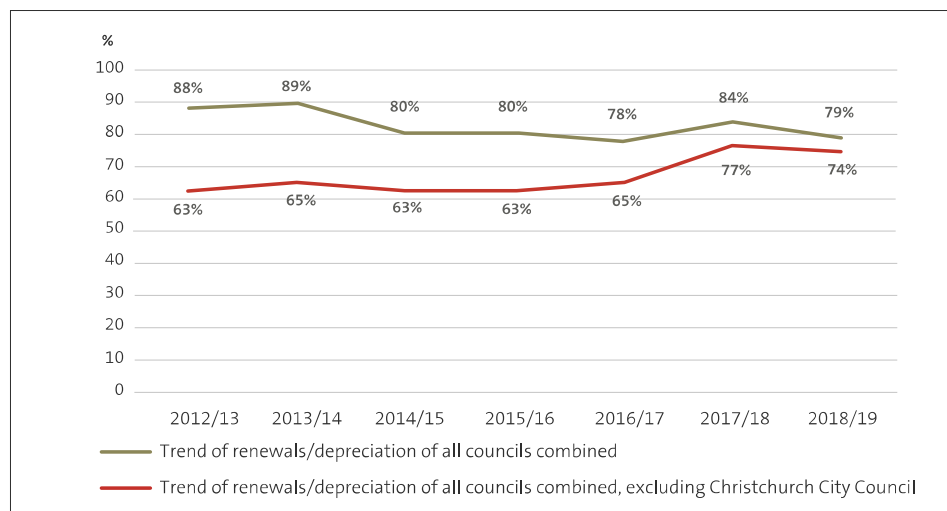
1.9 See Appendix 2 for more information on the sub-sectors.

### How well are councils reinvesting in their assets?

- 1.10 To consider how well councils are reinvesting in their assets, we compared capital expenditure on renewals with depreciation. We consider depreciation to be the best estimate of the portion of the asset that was “used up” during the financial year.
- 1.11 Overall, we remain concerned that councils might not be adequately reinvesting in critical assets. If councils continue to underinvest in their assets, there is a risk of reduced service levels, which will negatively affect community well-being.
- 1.12 In 2018/19, all councils’ renewal capital expenditure was 79% of depreciation. This means that, for every \$1 of assets used up, councils were reinvesting only 79 cents. This percentage was less than the 91% that all councils planned for in their 2018-28 LTPs. For 29 councils, renewal capital expenditure was more than 100% of depreciation, which is the highest number in the last seven years. The majority of these councils had budgeted to spend more than 100% of depreciation on renewal capital expenditure.
- 1.13 Figure 1 compares renewal capital expenditure with depreciation for all councils, from 2012/13 to 2018/19. There are two lines on the graph. The green line includes all councils. The red line excludes Christchurch City Council.
- 1.14 Christchurch City Council’s renewal capital expenditure is proportionately higher than other councils because of the rebuilding work it has done since the 2011 Canterbury earthquakes.
- 1.15 During the past seven years, renewals ranged between 78% and 89% of depreciation for all councils. The effect of Christchurch City Council’s rebuild effort after the Canterbury earthquakes did not give a true picture of how much all councils were investing in renewals, mainly from 2012/13 to 2016/17. We have seen a significant improvement in other councils’ renewal investment from 2016/17.

**Figure 1**  
**Renewal capital expenditure compared with depreciation for all councils, 2012/13 to 2018/19**

There are two lines on the graph. The green line includes all councils, and the red line excludes Christchurch City Council. Both lines show that renewal capital expenditure is less than depreciation for the period from 2012/13 to 2018/19, although there has been a significant improvement in councils' renewal efforts since 2016/17.



Source: Analysed from information collected from councils' annual reports.

1.16 When considering council sub-sectors, and excluding Christchurch City Council, two sub-sectors have a different trend to the red line in Figure 1:

- Regional councils' renewals as a percentage of depreciation ranged from 74% (in 2012/13) to 170% (in 2018/19). Greater Wellington Regional Council replacing a significant amount of public passenger vehicles during 2018/19 heavily influenced that year's figure.
- Rural councils' renewals as a percentage of depreciation ranged from 75% (in 2016/17) to 98% (in 2018/19). Rural councils' roading assets are rural councils' largest asset category. A central government subsidy through the New Zealand Transport Agency (NZTA) partly funds these assets. The funding from NZTA gives councils an incentive to replace their roading assets. This funding relationship might explain why they have a different trend to other councils.

- 1.17 Several factors could be contributing to the gap between renewals and depreciation, which might partially explain the apparent underinvestment in assets. For example, depreciation could be overestimated (because councils have not reviewed and adjusted the remaining useful lives of assets), or there could be changes in prices associated with asset renewal work over time. We discuss the importance of accurate depreciation expense estimates below.
- 1.18 In our view, each council needs to consider the robustness of the renewals gap in its context and the funding implications arising to ensure that there is adequate financial provision for renewing assets in the future.
- 1.19 To do this well, councils need to improve their asset management information. In particular, they need:
- good data about their critical assets in order to value, depreciate, and plan renewals;
  - good processes and sufficient resources to maintain and update their critical asset data;
  - effective working relationships between asset management, finance, and strategic planning staff, all of whom have an important role to play in supporting a council's asset management function; and
  - timely engagement with, and involvement by, elected members.
- 1.20 We provide a good practice example of a council that prioritised collecting better condition and performance information for their assets in Part 2.
- 1.21 We will continue to encourage councils to prioritise reinvesting in their assets and being transparent with their communities about the condition of council assets and reinvestment strategies.

### **How councils can improve the reasonableness of the depreciation expense**

- 1.22 Depreciation is a major expense for all councils. It reflects the progressive using up of an asset during its useful life. In 2018/19, depreciation across the local government sector amounted to \$2.52 billion.
- 1.23 Although depreciation is a non-cash cost, it has economic substance. It reflects that assets deteriorate through use and need to be periodically replaced. It is important for councils to ask whether the assessed depreciation charges are reasonable, given the age and condition of their assets.

- 1.24 Not having a reasonable depreciation expense has some significant risks for a council. For example, the amount of revenue a council collects to renew its assets might exceed or fall short of what is required. Because many councils use rates revenue to fund the renewal of assets, this could mean that councils are collecting too much rates revenue or not enough.
- 1.25 The reasonableness of depreciation relates to the assumptions used and how they compare to industry expectations, councils' understanding of their assets data (including the condition and performance of critical assets), and the strength of the asset valuation process. Good assumptions to support the depreciation expense is needed for councils to make good decisions about the renewal of their assets.
- 1.26 We are aware that some valuers are becoming concerned about the quality of councils' asset valuations. In our view, the main valuation challenges that need to be addressed are:
- understanding what an asset's "useful life" is;
  - regularly reviewing asset useful lives;
  - being over-reliant on asset useful lives that have not been properly assessed for the council's situation;
  - collecting enough asset condition and performance data;
  - weak records about the cost of asset renewals;
  - actively considering new asset replacement techniques;
  - ensuring that council staff who rely on valuation information are involved early in the valuation process so the valuation meets everyone's needs; and
  - the industry guidance developed by the Institute of Public Works Engineering Australasia that councils use to inform asset valuations is updated.
- 1.27 We discuss these valuation challenges in Appendix 4. We encourage councils' audit and risk committees to discuss with council staff how their council is considering and addressing these challenges.
- 1.28 Using their financial strategies and revenue and financing policies, councils will need to assess the extent to which they will fund depreciation through revenue sources such as rates. The Local Government Act 2002 requires councils to be financially prudent. It is far more difficult for a council to demonstrate financial prudence if it does not fully fund its depreciation expense through revenue sources.

- 1.29 We are concerned that councils are not paying enough attention to assessing the appropriate depreciation expense in conjunction with its periodic valuation of its assets. Some useful steps a council could take to improve the quality of its asset valuations, and therefore the reasonableness of its depreciation expense, are:
- having better processes to identify and plan for when a valuation is required – all relevant parties, including the valuer and the council’s finance and asset management staff, should be involved in this process to ensure that all aspects are considered;
  - treating the valuation process as a project and using good project management principles;
  - incorporating the valuer’s suggestions for improvement into work programmes; and
  - appropriately measuring work on the improvement areas identified in a valuation process and formally reporting progress to its audit and risk committee.
- 1.30 Having a more accurate depreciation expense will help inform councils of the right amount of reinvestment their assets need over the medium to long term to continue to deliver services to the community. It will also give councils a better understanding of the current costs of delivering those services.

## How well did councils build assets needed for ongoing growth?

- 1.31 This is the first year we have examined how well councils experiencing population growth have achieved their growth-related capital budgets. We found that most councils did not build all the assets they budgeted for in 2018/19. These councils will need to reassess their future planned budgets to accommodate what was not achieved in 2018/19. We will continue to keep an eye on their performance.
- 1.32 Some councils are experiencing significant population growth. These councils have been defined as “high-growth” councils under the National Policy Statement on Urban Development Capacity.<sup>3</sup> In their 2018-28 LTPs, high-growth councils forecast making significant investments to meet the additional demand on their infrastructure.
- 1.33 In 2018/19, high-growth councils spent about \$0.93 billion on capital expenditure intended to meet additional demand. This was about 64% of the \$1.46 billion budgeted for this purpose. Two councils, Christchurch and Tauranga City Councils, spent more than their growth-related capital expenditure budgets. In contrast, Selwyn and Western Bay of Plenty District Councils spent less than 40% of their budgets.



- 1.34 In their annual reports, high-growth councils said that delays and “timing differences” in projects were the main reasons why they did not meet their growth-related capital expenditure budgets. The main reason Christchurch and Tauranga City Councils spent more than their budgets was because they brought growth-related projects forward and completed them earlier in 2018/19.
- 1.35 High-growth councils did not cite funding concerns as a reason why they did not complete their growth-related capital expenditure. High-growth councils received capital subsidies or grant revenue of \$0.46 billion – 26% less than the \$0.62 billion budgeted. This decrease appears to be because councils had not started projects, rather than the funding not being available to allow projects to begin.
- 1.36 Non-council development still occurs in high-growth council areas. In 2018/19, third parties (mainly developers) gifted<sup>4</sup> \$0.76 billion of assets to high-growth councils to manage and maintain in the future. This was about 46% more than the \$0.52 billion budgeted.

## How well are councils delivering on their capital expenditure budgets?

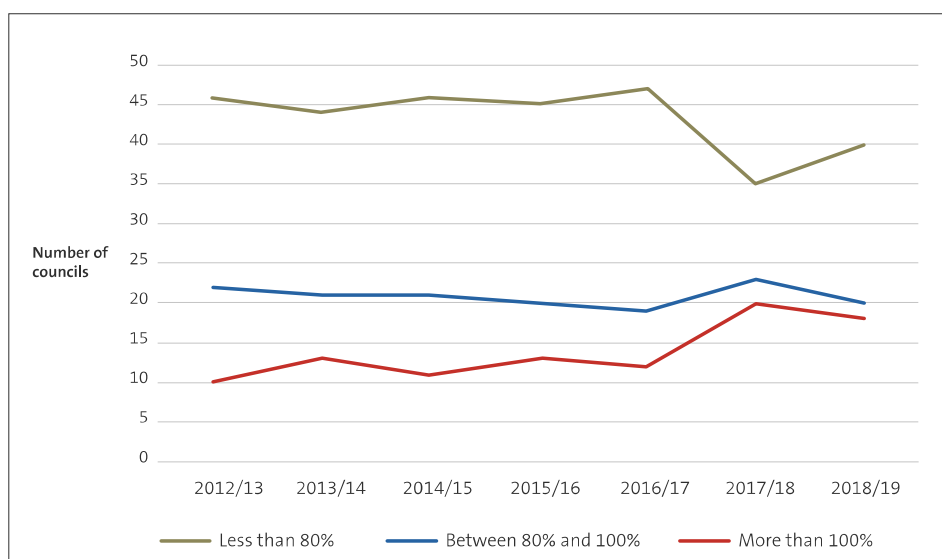
- 1.37 Most councils did not deliver on their capital expenditure budgets.
- 1.38 Councils’ total capital expenditure in 2018/19 was \$4.66 billion, which was the highest amount councils spent on their assets in the last seven years. However, the amount spent was only about 82% of the \$5.70 billion budgeted.<sup>5</sup> This is a smaller percentage than in 2017/18, when councils spent 84% of their capital expenditure budgets.
- 1.39 Project delays or deferrals were the most common reasons given by councils that spent significantly below their capital expenditure budgets. These delays were caused by several matters, including reprioritisation of council projects, internal delays (such as consenting issues), and contractual delays (such as tender processes taking longer than expected).
- 1.40 On average, all council sub-sectors spent less than 100% of their capital expenditure budgets. The regional council sub-sector was the lowest, spending \$175 million or, on average, 66% of their budget. By comparison, Auckland Council spent \$1.90 billion or 89% of its budget.
- 1.41 Looking at individual councils, 40 councils spent less than 80% of their capital expenditure budgets. This continues a trend we have observed over time (see Figure 2).

<sup>4</sup> Gifted assets are called “vested assets” in councils’ statement of comprehensive revenue and expense statements. They are a type of non-cash revenue. Typically they are roads or pipes connecting properties to the council’s networks.

<sup>5</sup> This information is from the statement of cash flows of councils. It includes only the cash that councils spent on purchasing property, plant, and equipment and intangible assets.

**Figure 2**  
**How much councils spent of their budgeted capital expenditure, 2012/13 to 2018/19**

In 2018/19, 40 councils spent less than 80% of their capital expenditure budgets. This was five more councils than in 2017/18, although it was less than in the other years. Councils spending more than 100% of their budget remained the smallest category.



Source: Analysed from information collected from councils' annual reports.

- 1.42 Most councils fund some of their capital expenditure through debt. As at 30 June 2019, councils' total debt was \$17.1 billion, which was \$1.0 billion more than at 30 June 2018. Councils had budgeted to have \$17.7 billion of debt at 30 June 2019. However, councils did not need all of this debt because they did not spend all of their capital expenditure budgets.
- 1.43 In our report on councils' 2018-28 LTPs, we considered that councils would need to carefully plan, prioritise, and monitor their capital programme budgets to have a realistic chance of achieving them.<sup>6</sup> After looking at their 2018/19 performance, our views have not changed.

<sup>6</sup> Office of the Auditor-General (2019), *Matters arising from our audits of the 2018-28 long-term plans*, Wellington, paragraph 3.29.

- 1.44 Councils will soon be preparing their 2021-31 LTPs. During this process, councils should consider how achievable their capital expenditure forecasts are. We encourage councils to consider:
- their previous delivery of capital expenditure budgets;
  - their, and the local contracting industry's, capability and capacity to deliver the proposed capital expenditure budgets; and
  - other planning needs, such as consent requirements.
- 1.45 Recently, the Government set up the New Zealand Infrastructure Commission – Te Waihanga. The Commission seeks to improve infrastructure planning and delivery. By doing so, it hopes to improve New Zealanders' long-term economic performance and social well-being.
- 1.46 One area of focus for the Commission is creating an infrastructure "pipeline"<sup>7</sup> that will be built up over time. The pipeline will give the market more visibility and more certainty about future projects to help suppliers plan and prepare. We encourage all councils to engage with the Commission so that it can begin including their future projects in the pipeline.
- 1.47 The Commission also provides procurement and delivery advice and support. We encourage councils to investigate how the Commission can support them.

<sup>7</sup> The pipeline is a list of intended infrastructure projects provided by central and local government organisations and the private sector.

# 2

## The importance of good asset information

- 2.1 For some time, we have said that councils should collect better information about the condition and performance of their critical assets.<sup>8</sup>
- 2.2 In this Part, we describe why having better condition and performance information is important. We describe the approach Ōpōtiki District Council (the Council) took to collect better information about its assets and the benefits it realised. We encourage other councils to consider this example of good practice.

### Why having better asset information is important

- 2.3 Councils own assets so they can provide important services, such as delivering drinking water and protecting communities from floods. As asset managers and stewards, councils need to have the right information about their assets to effectively manage them. This means that councils need to identify which of their assets matter most, based on which are the most critical for the continued delivery of the services they provide.
- 2.4 All councils need up-to-date knowledge of their critical assets, especially their condition and performance, to make well-informed decisions about maintaining and renewing those assets before they fail.
- 2.5 Councils also need to know the condition and performance of their assets so they are well equipped to deal with change. Change can come in several ways – for example, changes to regulations, a growing community, or the effect of the changing climate on the severity of storm events and water levels.
- 2.6 Councils responding to change might need to deliver services in different ways. They will need condition and performance information to do this efficiently and effectively.

### Ōpōtiki District Council's wastewater network

- 2.7 The sewers under the Ōpōtiki township (the main settlement in the district) were first installed in the 1950s. From the early 2000s, the performance of the wastewater network was poor, and many in the township suffered from loss of service. This was because the wastewater network did not have the capacity to deal with heavy rainfall events and the sewerage pipes were reaching the end of their useful lives.
- 2.8 During periods of heavy rain, the wastewater treatment plant would regularly overflow untreated effluent, which led to concerns for public health. There were also concerns that the wastewater network could not accommodate future development. The Council's approach at the time – to fix it when it broke – was not working and was proving too costly to continue.

<sup>8</sup> For example, see our December 2017 report, *Getting the right information to effectively manage public assets: Lessons from local authorities*.

- 2.9 The Council did not have the information to know what the main cause of the poor performance was, which meant it did not know how to best respond to the network failure.

### **Why the Council prioritised collecting better information**

- 2.10 Initially, the Council considered how to replace the wastewater network. However, the Council determined it did not have the information it needed to make an informed decision about how to replace the wastewater network or even whether replacing the network was the right decision. Any potential solution also needed to consider the changing climate.

### **Proper governance processes were put in place**

- 2.11 The Council set up a subcommittee to govern the project to find a solution. It appointed an independent member with an engineering background to the subcommittee. The Council told us that it found the independent member hugely beneficial because they helped ensure that the right questions were asked and that staff provided the right information to effectively govern the project.

### **What type of information did the Council collect?**

- 2.12 In 2013/14, the Council started collecting a range of information to get a sense of the condition and performance of its sewer networks.
- 2.13 One of the first things the Council did was check the general state of the pipes and to try to identify how much rainwater was flowing into the wastewater network. This work focused on the worst-known sewer mains, as well as a representative sample of the network. In the end, the Council checked about 15% of the network.
- 2.14 The Council also increased its monitoring of ground water, river levels, rainfall, and its pump station. From this monitoring, the Council confirmed that rainwater was entering its wastewater network through gully traps and illegal connections. Ground water was also getting into the wastewater network through old broken underground pipes.
- 2.15 The Council used the information the modelling work collected to develop and evaluate scenarios and options to address its wastewater problem.

### **Tailored repair work – the Find and Fix project**

- 2.16 In 2015/16, the Council carried out an initial trial in Ōpōtiki's smallest catchment. The trial was known as the Find and Fix project. The project found and fixed areas of water infiltration into the network. It repaired both council-owned wastewater pipes and privately owned pipes.<sup>9</sup> The Council funded the repair work on privately owned pipes.
- 2.17 The Council also educated its community about the best ways to dispose of rainwater collected on their property. Council management considered that this helped reduce the level of rainwater coming into the wastewater network.
- 2.18 The Council continued its monitoring programme during the project and observed a significant reduction in the amount of rainwater coming into the catchment's wastewater network once the repair work was completed.

### **The Council's decision to fix the wastewater network**

- 2.19 Based on the information it collected, the modelling it did, and the results of the Find and Fix project, the Council decided to rehabilitate (fix) the existing wastewater network in 2017. The rehabilitation option was partly an extension of the Find and Fix project.
- 2.20 The Council would continue to fix broken pipes – both private pipes and those owned by the Council. For the main reticulation pipes, the Council relined the existing pipes instead of installing new pipes. This would extend the life of the pipes, although for a shorter time than if new pipes had been installed.
- 2.21 The rehabilitation project was budgeted at \$12 million and was scheduled to start in the 2018 financial year and finish in 2020. At the time of writing this report, the Council was nearing the end of the rehabilitation project as it initially had planned.
- 2.22 The Council has spent about \$5 million on fixing the wastewater network, which is less than it expected. It has assessed that the average daily flows going through the wastewater network have reduced by at least 25% because of the work of the rehabilitation project.
- 2.23 Council staff believe that the Council will need to continue to collect the information we discussed in paragraphs 2.13 and 2.14. This information will be used again to target repairs where they are most needed and to maintain a sustainable system in the future.

### **The benefits of, and lessons from, collecting better information**

- 2.24 We asked council management about the main benefits of, and the lessons learned from, its work on the wastewater network. Council management saw three main benefits:
- The Ōpōtiki community is receiving a significantly better level of service. There are fewer wastewater overflows, and the wastewater treatment plant no longer reaches capacity during heavy rainfall events.
  - The Council identified an effective solution through an evidence-based decision-making process, which saved the Council and its community money. However, the cost was significant, because the Council had to quickly make up for years of underinvestment.
  - The Council learned the value of investing in data systems to gain good information about assets to inform decisions. The Council told us that, if councils decide to collect better information, they need to commit to data collection and budget accordingly. A council will not get the full benefits if it does not properly invest in the investigative stage.
- 2.25 We encourage councils, especially those that do not have good-quality information about the condition and performance of critical assets, to learn from the Council's initiative.

# 3

## Responding to growth: Consenting development

- 3.1 In this Part, we look at information in councils' annual reports on building and resource consenting decisions, and statistical information on recent sector trends. We also look at narratives from some councils' annual reports about their consenting operations to understand their performance and the reasons they give for it.
- 3.2 Managing growth is a challenge for many councils. Responding to growth pressures for housing, associated infrastructure, community facilities, and services is complex, time critical, and expensive. We acknowledge that councils are often the last resort for liability claims when things go wrong.
- 3.3 We regularly comment on infrastructure challenges in our reports on the local government sector, including this report. The Productivity Commission's 2019 report *Local government funding and financing* noted that growth is one of the most significant challenges councils face.
- 3.4 A particular challenge is supplying enough infrastructure for urban growth. The Commission said that "[t]he failure of high-growth councils to supply enough infrastructure to meet housing demand is a serious problem".
- 3.5 Ineffective development planning and consenting are regularly raised as reasons for excessive development costs and delays, particularly to housing development.
- 3.6 Most councils did not meet the statutory time frames for processing building consent applications and non-notified resource consent applications, although many came close.

### Council responsibilities

- 3.7 Councils have primary responsibility for planning and regulating land use and building under the Resource Management Act 1991 and the Building Act 2004.
- 3.8 Councils have a statutory requirement to process most building consent and non-notified resource consent applications within 20 working days.<sup>10</sup> As part of the audit of councils' non-financial performance, our auditors often look at how councils meet this requirement.
- 3.9 Meeting timeliness requirements for building and resource consent applications is only an indicator of councils' effectiveness in responding to growth. The information contained in councils' annual reports does not give a measure of the quality of the development proposals, decision-making, or planning. We also recognise that speed and cost are indicators of efficiency but not necessarily indicators of regulatory quality or value for ratepayers.<sup>11</sup>

<sup>10</sup> The statutory days exclude days where the applicant provides further information or the processing end date has been extended.

<sup>11</sup> However, other organisations do assess regulatory quality and value. For example, International Accreditation New Zealand does biannual assessments of building consent authorities to check that they have, and consistently and effectively implement, the minimum policies, procedures, and systems a building consent authority must have to perform building control functions.



- 3.10 In addition to planning for growth and consenting, councils are exposed to liabilities from regulatory and implementation failures. Weathertightness claims continue to be significant.
- 3.11 It takes only one failure to result in a significant cost to ratepayers. For example, the Bella Vista development in Tauranga, where the near-completed housing development was found to have serious structural and geotechnical defects.
- 3.12 Tauranga City Council ultimately purchased the site developed by Bella Vista. The Council is currently in a public tender process to re-sell the site for development to cover the cost of its purchase. The cost to ratepayers, not including the Council's insurance proceeds, is currently more than \$3.5 million.<sup>12</sup>
- 3.13 Councils also meet the costs of policing (and prosecuting) unconsented and unlawful activity. Councils are also often the last resort for meeting liability claims, even where others are partly or fully responsible, creating an incentive to be cautious.

### **Performance of regulatory functions: Building and resource (land-use) consenting**

- 3.14 Typically, councils have a target to process 100% of consent applications within 20 working days, but we did see some variations. For example, Hutt City Council had a target to process 80% of building and resource consent applications within 18 working days, and Rotorua Lakes Council had a target to process 60% of building and resource consent applications within 15 working days. Other councils had targets of less than 100% in 20 working days, which is not consistent with statutory obligations.
- 3.15 New or substantive building works often require a building consent but not a resource consent. Therefore, councils usually process more building consent applications than resource consent applications.
- 3.16 We looked at annual report information for building consent applications and non-notified resource consent applications for 67 territorial and unitary authorities. We did not look at notified resource consent applications, because these are usually complex and take more than 20 working days to process.
- 3.17 Regional councils also process consent applications for matters in their areas of responsibility, including major earthworks to do with buildings. We did not include these applications, because they are a minority and are not usually substantive for approving building developments.

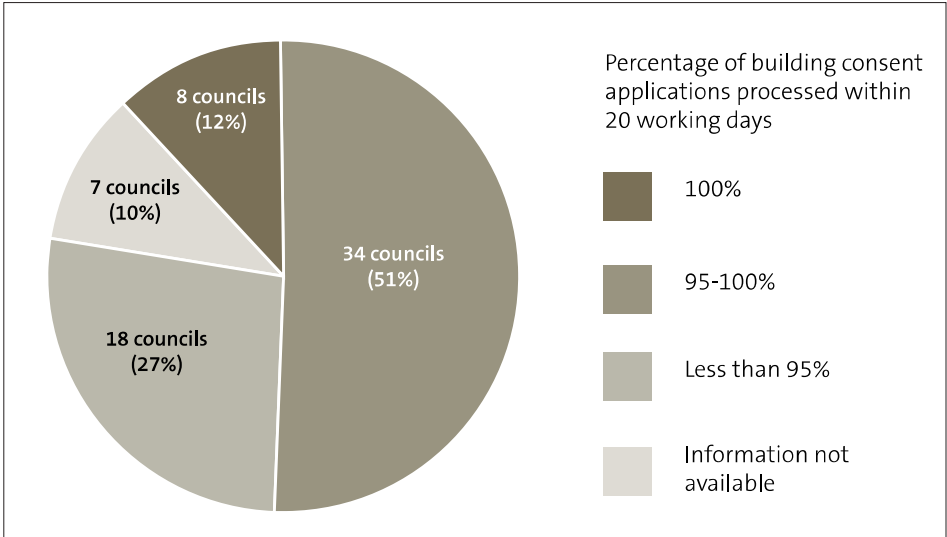
<sup>12</sup> Tauranga City Council press release, (6 December 2019), "Tauranga City Council sells 22 properties" at [tauranga.govt.nz](https://www.tauranga.govt.nz).

Building consent delivery performance

3.18 Eight councils reported that they had processed 100% of building consent applications within 20 working days, which is the statutory requirement.<sup>13</sup> Thirty-four councils reported that they processed between 95% and 99% of building consent applications, and 18 councils reported that they processed fewer than 95%. We did not find usable information about the processing of building consent applications in seven councils’ annual reports.

**Figure 3**  
**Building consent applications processed by councils within 20 working days in 2018/19**

In 2018/19, eight of 60 councils reported that they processed 100% of building consent applications within 20 working days, which is the statutory requirement. Thirty-four councils processed between 95% and 99% of building consent applications within 20 working days. Eighteen councils processed fewer than 95% of building consent applications within 20 working days. We could not find usable information on building consent timeliness for seven councils.



Source: Collated from 67 councils’ annual reports.

3.19 Invercargill City Council (which processed 64% of building consent applications) remarked on a significant increase in the number and value of building consent applications compared to the previous 12 months. It also stated that “resources

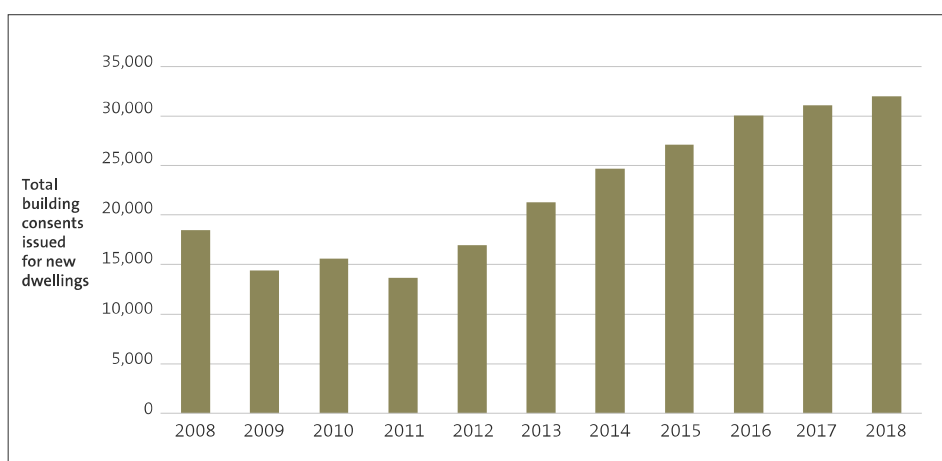
13 These councils are Kāpiti Coast District Council, Kawerau District Council, Ruapehu District Council, South Wairarapa District Council, Upper Hutt City Council, Waipa District Council, Wairoa District Council, and Whanganui District Council.

(both internal and external) had been insufficient to meet the demand. This increase in applications is a nation-wide trend, as is the shortfall in qualified staff”.<sup>14</sup>

- 3.20 Statistics New Zealand reports increasing numbers of building consents issued, mainly for housing, which has been sustained since 2012/13.<sup>15</sup>

**Figure 4**  
**Total building consents issued for new dwellings, 2008-18**

In 2018, all councils issued more than 30,000 consents for new dwellings. In 2011, all councils issued fewer than 15,000 consents for new dwellings. The graph shows a steady increase in consents issued between 2011 and 2018.



Source: Statistics New Zealand.

- 3.21 Statistics New Zealand recorded that Auckland Council processed 14,956 building consent applications in 2018/19, which is 37% of all building consent applications (40,855). Only five other councils processed 1000 or more consent applications: Christchurch City Council (2746), Hamilton City Council (1696), Tauranga City Council (1375), Queenstown-Lakes District Council (1364), and Wellington City Council (1016).

### Resource consent delivery performance

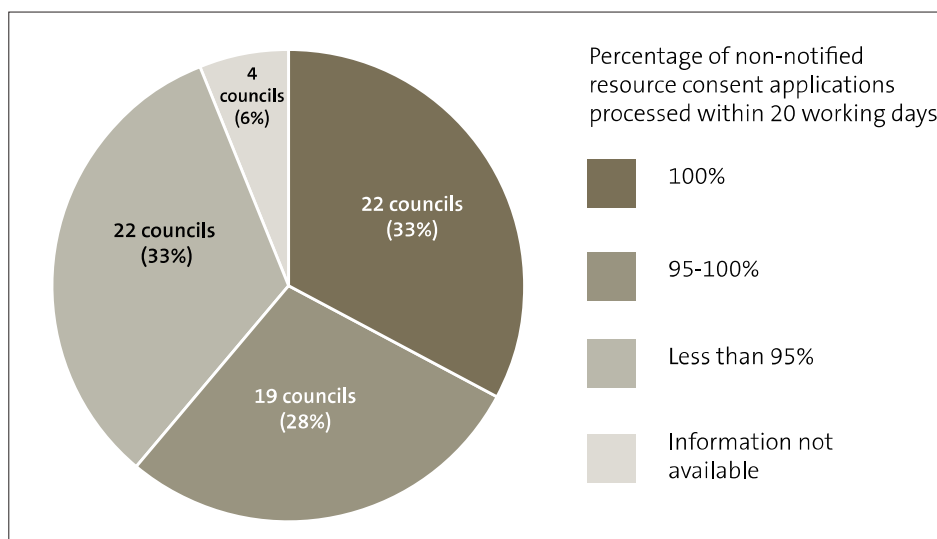
- 3.22 For non-notified resource consent applications, 22 of the 67 councils reported that they processed 100% of them within 20 working days. Nineteen councils reported that they processed between 95% and 99%, and 22 councils reported that they processed fewer than 95%. We did not find usable resource consent application processing information in four councils’ annual reports.

<sup>14</sup> Invercargill City Council (2019), *Annual Report 2018/19*, page 51.

<sup>15</sup> See Statistics New Zealand (2019), “Building consents issued: June 2019”, at [www.stats.govt.nz](http://www.stats.govt.nz).

**Figure 5**  
**Non-notified resource consent applications processed by councils within 20 working days in 2018/19**

In 2018/19, 22 of 63 councils reported that they processed 100% of non-notified resource consent applications within 20 working days, which is the statutory requirement. Nineteen councils processed between 95% and 99% of non-notified resource consent applications within 20 working days. Twenty-two councils processed fewer than 95% of non-notified resource consent applications within 20 working days. We could not find usable information on resource consent timeliness for four councils.



Source: Collated from 67 councils' annual reports.

- 3.23 Auckland Council reported that it processed 56% of non-notified resource consent applications within 20 working days. Auckland Council said:

*The disappointing results ... continue to underline the complex and challenging consent environment brought about by an enabling Unitary Plan and the significant number of complex commercial, and residential apartment and terrace housing developments driven by growth.*<sup>16</sup>

- 3.24 In 2017/18, Auckland Council received a modified audit opinion on the statement of service performance in its annual report for building consent and non-notified resource consent applications. This was because of inaccuracies in how it recorded processing times for these performance measures.

- 3.25 Central Hawke's Bay District Council (which processed 60% of building consent applications) remarked in its annual report<sup>17</sup> that resource shortages and a dramatic increase in the number of consent applications had led to it exceeding

<sup>16</sup> Auckland Council (2019), *Auckland Council Annual Report 2018/19 Volume 1*, page 99.

<sup>17</sup> Central Hawke's Bay District Council (2019), *Annual Report 2018-19*, page 29.

“... time limits in many cases. Most cases where limits were exceeded were only by a number of days.”

## Consenting costs

- 3.26 We looked at council schedules of fees and charges, including deposit fees and charges for processing residential building and resource consent applications. We found that both thresholds and schedules of costs varied widely. Some councils specified a deposit fee, and others specified hourly rates only. This is not an unexpected finding, and reflects that councils have their own circumstances and policy approaches to setting fees.
- 3.27 For example, Auckland Council charged a building consent application deposit fee of \$1,766 (for 60% of building consent applications processed), while Christchurch City Council charged \$6,840 (for 99% of building consent applications processed). Waimakariri District Council charged a \$164 hourly rate for processing building consent applications, while Queenstown-Lakes District Council charged a \$272 hourly rate. Nelson City Council charged a non-notified resource consent application deposit fee of \$1,300, while its neighbour, Tasman District Council, charged a \$950 fee.

## Implications for growth

- 3.28 Information in councils’ annual reports does not clearly explain the inter-relationship between consenting performance and outcomes, nor how consenting timeliness relates to development and growth. Annual reports also do not record how long councils took to process applications where the time taken exceeded 20 working days nor, in most cases, what efforts they made to solve staff shortages. These concerns are about more than timeliness – they create risks for quality and compliance.
- 3.29 It seems reasonable to expect that pressures on consenting authorities will continue. It is not possible, from the information in annual reports, to understand the full effect that consenting performance has in responding to growth pressures. The information in annual reports also does not fully describe how building and resource consent requirements and conditions affect the cost, time, or location of development.
- 3.30 Building and resource consenting are matters of interest to communities as well as to applicants, and enable significant economic activity. We encourage councils to present meaningful numerical and narrative information about consenting performance and circumstances in their annual reports.
- 3.31 In this way, applicants, regulators, communities, and other stakeholders get better insights into their council’s circumstances and any steps it is taking to respond to pressures and improve its performance.

# 4

## Audit and risk committees

- 4.1 In our May 2019 report *Our 2018 work about local government*, we reinforced the importance of effective audit and risk committees for councils. They can provide external and independent perspectives on the risks, issues, and challenges councils face.
- 4.2 In this Part, we discuss the importance of audit and risk committees to support the good governance of councils. We also look at the status of audit and risk committees after the 2019 local government elections, including their membership and terms of reference.

### **What are audit and risk committees and what is their value?**

- 4.3 Audit and risk committees provide guidance and advice to councillors, typically on the council's financial reporting, risk management, system of internal controls, and external and internal audit matters.
- 4.4 Importantly, they can provide different and independent perspectives on the risks, issues, and challenges councils face. Although audit and risk committees should improve the governance of councils, they do not replace that governance.
- 4.5 In our view, effective audit and risk committees help provide assurance to councillors and management on councils' financial management and main systems and controls. They can also provide assurance that the council's strategies and plans are achieving their strategic objectives.
- 4.6 Audit and risk committees should focus on providing assurance to councillors that the council is managing risk well. An audit and risk committee that focuses only on compliance limits its value.
- 4.7 The Productivity Commission and the Institute of Directors expressed views on the use of audit and risk committees in local government. In its submission on the Commission's draft local government funding and financing report, the Institute said that it "strongly endorse[s] the Commission's recommendations to help build governance and financial capability."
- 4.8 The Commission's final report recommended that "[t]he Local Government Act 2002 should be amended to require all local authorities to have an audit and risk committee". This has also been our position for some time.
- 4.9 At the time of writing this report, the Government was considering the Commission's recommendations.
- 4.10 Most councils have an audit and risk committee. We looked at the number and make-up of audit and risk committees before the 2019 local government elections. We found that only five councils did not have an audit and risk committee or an equivalent.

- 4.11 At that time, 60 councils had an independent or external member(s), and 30 of these also had an independent chairperson. We looked at the status of audit and risk committees again after the 2019 local government elections and found that 76 councils had an audit and risk committee or an equivalent.
- 4.12 At the time of writing, the remaining two councils were still considering it. Of the 76 councils, 67 had or planned to appoint one or more independent members, and 42 had or planned to appoint an independent chairperson.

**Figure 6**  
**Numbers of council audit and risk committees before and after the 2019 local government elections**

Audit and risk committees	2020	2019
Standing committees (confirmed or proposed)	76 (97%)	73 (94%)
With independent members (including chairpersons)	67 (86%)	60 (77%)
With independent chairpersons	42 (54%)	30 (38%)
No standing committees	2 (2%)	5 (6%)

Source: Office of the Auditor-General survey of councils.

- 4.13 We are pleased that almost every council now has an audit and risk committee, and that the number of councils with independent chairpersons has increased. The real value of these audit and risk committees, and their independent members and chairpersons, will be whether the councils they serve judge them to be effective.

## How can audit and risk committees be effective?

- 4.14 In our view, there are four principles for an effective audit and risk committee. They are independence, clarity of purpose, competence, and open and effective relationships.

### Independence

- 4.15 Independent and external perspectives, experience, and knowledge enable audit and risk committees to test and challenge councils. We consider that audit and risk committees need independent members – in particular, independent chairpersons – to be able to give truly independent advice.

### Clarity of purpose

- 4.16 Councils need to be clear about what they want from audit and risk committees to get the most value from having one. Clarifying all parties' expectations keeps audit and risk committees focused on supporting governance. Strong terms of reference help enable clarity.

## Competence

- 4.17 Audit and risk committees need a mix of skills and experience to provide the right level and type of oversight needed, particularly on risk. Having a diverse team brings a variety of perspectives and backgrounds and enables the audit and risk committee to scrutinise and debate issues.

## Open and effective relationships

- 4.18 Effectiveness is achieved when audit and risk committees operate in an environment of openness and trust. Audit and risk committees more effectively support councils when chairpersons and councils promote open and proactive dialogue, including with management, staff, and councillors.

## Mandate and relationships

- 4.19 A right mix of members and strong terms of reference are essential for audit and risk committees to succeed. To be effective, they need a wide mandate in their terms of reference.
- 4.20 We looked at terms of reference for some audit and risk committees. Most covered:
- risk management;
  - internal controls;
  - internal audit;
  - external audit;
  - external accountability; and
  - compliance with legislation, policies, and procedures.
- 4.21 The terms of reference that councils set for audit and risk committees are important. A scope that is too narrow, meetings that are too few, or vague areas of focus could undermine the effectiveness of audit and risk committees in identifying and managing risks or scrutinising non-financial performance.
- 4.22 Several terms of reference that we looked at included requirements for independent member(s) and/or independent chairpersons. Matamata-Piako District Council's charter and terms of reference included a requirement that the chairperson be "an external appointment with skills and experience to provide value to the Council". Hutt City Council included a matrix table to record the "experience, skills and personal qualities" of each independent member.
- 4.23 Several terms of reference that we looked at explicitly included oversight of LTP development and/or progress, including financial and capital spending concerns.



- 4.24 Most terms of reference included references to risks and emerging risks that were focused mainly on systems and controls and financial implications. This might be too vague. Councils face many areas of challenge and risk. Audit and risk committees are a mechanism to help clarify and manage these risks.

### The next steps

- 4.25 Councils have acted on our recommendation for them to have an audit and risk committee. They have voluntarily chosen to establish and develop an audit and risk committee or an equivalent.
- 4.26 We hope that this will continue to build council staff and the community's confidence in their councils and become embedded in councils' culture and governance.
- 4.27 We consider that, to be effective, audit and risk committees need to have independent members – in particular, an independent chairperson – and a strong mandate (terms of reference).
- 4.28 We encourage councils to continue to consider the membership and terms of reference for their audit and risk committees. We also encourage councils to clarify areas of ambiguity and complexity, such as the role audit and risk committees have in managing:
- transitioning to a disrupted climate and low-emissions future;
  - funding and financing uncertainty;
  - cyber security;
  - regulatory and legislative compliance;
  - significant project, operational, and development-related risks;
  - infrastructure planning; and
  - Covid-19 implications.
- 4.29 We will continue to support effective audit and risk committees in our capacity as auditors – in particular, audit and risk committees' contribution to managing risks. We and others have prepared material about audit and risk committees and guidance on enabling an effective committee.
- 4.30 We have met with several councils since the 2019 local government elections and will continue to work with our appointed auditors and audit and risk committees to support them in being effective.

# 5

## Councils' activity on climate change

- 5.1 Councils are, in many ways, at the forefront of responding to climate change. Communities are demanding that more needs to be done to manage the effects of climate change.
- 5.2 In this Part, we discuss what councils said about their climate change activities in their 2018/19 annual reports and what climate change actions they have taken more generally.
- 5.3 We discuss Waikato Regional Council's climate action committee and Environment Canterbury's climate change integration programme. We also comment on the role of audit and risk committees and what, in our view, councils should consider for their future accountability documents.

### Councils disclosed a broad range of climate change activity

- 5.4 In our report on councils' 2018-28 LTPs, we found that most councils were deferring making decisions about how to respond to the effects of climate change because there was too much uncertainty.
- 5.5 Many councils assumed in their 2018-28 LTPs that, in the next 10 years, the effects of climate change will not significantly affect their communities and that there will be no major natural hazard events.
- 5.6 Our review of councils' 30-year infrastructure strategies found that councils have a limited understanding of the risks natural hazards pose and how climate change could affect their infrastructure assets. This means that councils have a limited ability to:
- advise their councillors of these risks;
  - communicate these risks to their communities; and
  - make informed decisions about how to manage their assets in response and what it will cost.
- 5.7 We are pleased to see that councils are giving greater consideration to climate change effects. In their 2019 annual reports, most councils disclosed that they had carried out some activity related to climate change during the year.

### Declaring climate emergencies

- 5.8 In the 2019 calendar year, 16 councils declared climate emergencies, and six of them mentioned this in their annual report. Whanganui District Council declared a climate emergency on 11 February 2020.
- 5.9 Some of these climate emergency declarations came as a direct response to submissions from the public to prioritise climate action. However, several councils

noted that there were no inherent statutory or legal implications associated with the declaration of a climate emergency.

- 5.10 Councils said that making these climate emergency declarations signalled to the community that they recognise the importance and urgency of addressing climate change. They also said that the declarations acted as a mechanism for the council to centralise its climate change work and report back to councillors on progress.
- 5.11 The implications of declaring a climate emergency on council decision-making are not yet clear. However, we expect that declaring an emergency would result in some tangible response to accelerate council actions or programmes relating to climate mitigation and/or adaptation in the form of governance, management, and prioritisation of council activity and investment.

### Climate change strategies and policies

- 5.12 Four councils reported that they had consulted on, or adopted, a climate change strategy or policy. Ashburton District Council adopted a climate change policy in May 2019 to:
- enable the Council to respond to climate change in a more integrated manner to ensure the sustainability of the Council's assets and services;
  - enhance the resilience and preparedness of households and businesses; and
  - manage the Council's carbon emissions.
- 5.13 The policy has six principles to guide the Council's decision-making:
- kaitiakitanga/stewardship;
  - anticipatory governance;
  - equity/justice;
  - informed decision-making;
  - work as one; and
  - resilience.

### Integrating climate change into council decision-making

- 5.14 Several councils describe how they currently, or plan to, consider the effects of climate change into their decision-making.
- 5.15 Environment Canterbury set up a climate change integration programme to:
- increase the visibility of council staff's climate change work to councillors, the executive team, and the community;
  - break down silos within the Council; and

- ensure consistency in the Council's use of Representative Concentration Pathways scenarios and its input into science modelling.
- 5.16 The climate change integration programme has two main objectives:
- robustly and visibly incorporate consideration of the effects of climate change into advice by council staff that informs decision-making by councillors; and
  - carry out activities that educate the community about climate change.
- 5.17 Environment Canterbury is considering how to incorporate information into its LTP to meet potential reporting requirements under the Climate Change Response (Zero Carbon) Amendment Act 2019 (the Zero Carbon Act). This will include incorporating the results of its organisational climate change risk assessment, which is currently in progress, into its planning for the 2021-31 LTP.
- 5.18 Environment Canterbury convenes a regional climate change working group for Canterbury. The group includes territorial local authorities and Ngāi Tahu. Its work programme includes developing a climate change risk assessment in order to develop an understanding of risks throughout Canterbury. The group also advocates to central government, highlighting the leadership role that local government is taking with climate change.

### **Emission reduction targets**

- 5.19 A small number of councils noted their emissions reductions targets in their annual reports. The targets were variable – carbon neutral by 2030, carbon neutral by 2040, carbon zero by 2030, and reducing emissions by a percentage each year.

### **Collaborating across councils**

- 5.20 Several councils in four regions are collaborating on climate change.
- 5.21 The four Southland councils – Southland District Council, Invercargill City Council, Gore District Council, and Environment Southland – jointly commissioned an independent assessment of the regional impacts of climate change for the Southland region.
- 5.22 The Wellington Region Climate Change Working Group was set up to enable a collaborative regional response to climate change issues. Its members are all nine councils in the Wellington region and three representatives from Ara Tahi, a leadership forum of Greater Wellington Regional Council and its six mana whenua partners.

## Dedicated staff and funding

- 5.23 In September 2019, Carterton and South Wairarapa District Councils created a new role – climate change advisor. The district councils are planning to release a climate change strategy in mid-2020 and then develop a more in-depth list of actions.
- 5.24 In its annual report, Nelson City Council noted that it had approved funding for various climate change initiatives, including appointing a dedicated climate change staff member, setting up a climate forum and taskforce, and measuring and reducing the Council's organisational greenhouse gas emissions.
- 5.25 In May 2019, the Hawke's Bay Regional Council's Coastal Hazards Joint Committee recommended that a coastal contributory fund be established to help meet the future costs of constructing infrastructure, such as sea walls, to manage climate risks.

*It's an exciting opportunity, this climate forum is the first of its kind in New Zealand, it's a community-lead initiative that's allowing for community involvement, community engagement in climate change in a way that we haven't seen before.*

Chris Cameron, Nelson City Council climate change champion.

## Some councils have made changes to their governance structures

- 5.26 As well as what was reported in councils' 2018/19 annual reports, a small number of councils had established climate change committees for the 2019-22 triennium at the time of writing this report.

### Waikato Regional Council Climate Action Committee

- 5.27 We spoke with the chairperson of Waikato Regional Council's Climate Action Committee (the Committee). We wanted to understand the Council's reasons for establishing the Committee and what role the Council expected it to play in decision-making.
- 5.28 The Committee has two main objectives:
- receive scientific evidence and matauranga Māori to inform strategic leadership on how the Waikato region could mitigate and adapt to the effects of climate change; and
  - inform the development of objectives for mitigating and adapting to the effects of climate change, share information, and facilitate collaborative action to reduce greenhouse gas emissions and prepare for the effects of climate change.

- 5.29 The Committee has five members and a quorum of four. It meets quarterly and reports to Waikato Regional Council, with the power to make recommendations that relate to any one of the eight scopes of activity set out in its terms of reference. Its recommendations inform how the Council sets its strategic direction on climate change.
- 5.30 The eight scopes of activity relate to four areas:
- developing a comprehensive risk assessment and action plan for the region;
  - advising on actions to deliver on responsibilities that will arise from the future Climate Change National Adaptation Plan to be developed under the Zero Carbon Act;
  - ensuring that evidence and guidance on climate change informs the Council's work programmes and that decisions explicitly consider the effects of climate change; and
  - enabling collaboration.
- 5.31 The Council noted to us the importance of council officials/senior management, councillors, and the chairperson of each council committee having a common understanding of, and approach to, climate change so that their advice is consistent when they advise the full Council.
- 5.32 One lesson the Council stressed is that focusing council business on climate change needs to be embedded in a council and not be treated as an "add-on". Council staff and councillors need to have a base-level understanding of climate change to achieve this.
- 5.33 The chief executive has a critical role in being the "glue" between the planning and doing of a council through the tone that they set.

## Preparing for future accountability documents

### Increasing the visibility of council climate change work

- 5.34 Our general observation is that many councils are giving greater attention to climate change in their governance and decision-making – regardless of whether they declared a climate emergency. This is particularly the case for regional councils and unitary authorities given their responsibility for managing natural hazards.

- 5.35 We commend this effort and see benefit in councils improving the visibility of their work on climate change. Providing this information helps communities to improve their understanding of the actions that their council is taking to manage the risks and opportunities that a changing climate presents. This is important when dealing with an issue such as climate change where the nature, severity, and urgency of the effects are unknown.<sup>18</sup>
- 5.36 In our report *Matters arising from our audits of the 2018-28 long-term plans*, we said that, for the 2021-31 LTPs, councils need to comprehensively discuss resilience<sup>19</sup> and climate change issues with their community. This discussion should cover both financial and non-financial effects.
- 5.37 Council staff and councillors have an important role in helping their communities to understand the risks of climate change. This includes discussing what risk communities are prepared to accept and what they are prepared to pay.

### **Transparency about current understanding of risks from a changing climate**

- 5.38 It is important that councils are transparent with their communities about their current understanding of the risks from climate change. Councils should explain that their understanding will evolve over time. Councils should increase dialogue with their communities and improve the information about climate change that they provide.
- 5.39 Information helps communities hold their council to account, communicate their expectations, and engage in future council decision-making processes, such as the LTP process.
- 5.40 However, in our report *Matters arising from our audits of the 2018-28 long-term plans*, we said that it makes little sense for all councils to individually consider how to improve their reporting on climate change issues.
- 5.41 We said that there is the need and opportunity for increased leadership on deciding what data is needed, which organisation will collect it, its quality, and what councils need to disclose in future accountability documents, including their LTP. We recommended that central and local government both continue to consider how they can provide increased leadership on these matters.

<sup>18</sup> The criteria nature, severity, and urgency are the basis for the National Climate Change Risk Assessment. See [www.mfe.govt.nz](http://www.mfe.govt.nz).

<sup>19</sup> The 2009 UNISDR *Terminology on Disaster Risk Reduction* defines resilience as "[t]he ability of a system, community or society exposed to hazards to resist, absorb, accommodate to and recover from the effects of a hazard in a timely and efficient manner, including through the preservation and restoration of its essential basic structures and functions through risk management". See United Nations Office for Disaster Risk Reduction (2009), *2009 UNISDR Terminology on Disaster Risk Reduction*, at [www.undrr.org](http://www.undrr.org).

## Council audit and risk committees have a role to play in addressing climate change effects

- 5.42 As discussed in Part 4, an important role of audit and risk committees is to assist and advise councillors on risk management. This supports councillors to provide assurance to their community.
- 5.43 Risk is the effect of uncertainty on achieving a council's objectives. Climate change poses risks to council business, and council business affects the climate. A council's audit and risk committee should consider what effect a disrupted climate might have on the council achieving its objectives – in particular, its ability to deliver services to the community.
- 5.44 Audit and risk committees and other council committees, as appropriate, should also consider the implications that might arise for their council from potential reporting obligations under the Zero Carbon Act.
- 5.45 The Zero Carbon Act enables the Minister for Climate Change or the Climate Change Commission to request that a reporting organisation (which includes councils and council-controlled organisations) provide information about its governance, risk identification, and management as it relates to climate change.
- 5.46 The intention is that any information gathered from reporting organisations will inform the development of the national climate change risk assessment and national adaptation plan.



## A refocus on well-being

- 6.1 In this Part, we discuss the changes to the Local Government Act 2002 (the Act) that reinstated councils' focus on well-being.
- 6.2 In May 2019, the Act was amended to give councils the mandate to promote the social, economic, environmental, and cultural well-being of their communities in the present and for the future. The amendments restore the position to when the Act was enacted in 2002.
- 6.3 In 2012, amendments to the Act changed the statutory purpose of local government to require councils to focus on infrastructure, local public services, and regulatory functions in the most cost-effective manner.
- 6.4 The 2012 amendments removed references in the Act to social, economic, environmental, and cultural well-being. However, councils still had to report on the identified effects of their activities on community well-being generally. This applied to reporting periods from 2013 to 2018.
- 6.5 As a result of the 2019 amendments, the Act's decision-making, planning, and reporting regime returned the focus to well-being. Councils have to consider the four aspects of well-being when making decisions and planning how their activities will contribute to the desired outcomes for their communities.
- 6.6 Councils' LTPs have to describe the community outcomes they seek for the region or district, identify how their activities contribute to community outcomes, and identify any significant negative effects that their activities have on well-being.<sup>20</sup>
- 6.7 Councils also have to explain in their annual reports:
  - what they do (their groups of activities);
  - why they do them (the community outcomes to which the group of activities primarily contributes);
  - the results of any measurement of progress towards the achievement of those outcomes during the year; and
  - any identified effects that any activity within the group of activities has had on the social, economic, environmental, or cultural well-being of the community.
- 6.8 Our audit report is required to confirm that councils have complied with these disclosure requirements. We also audit the statement of service provision, which sets out the council's actual levels of service to the community against its planned levels of service.<sup>21</sup>

<sup>20</sup> Local Government Act, clauses 1 and 2 of Schedule 10.

<sup>21</sup> Local Government Act, section 99 and clause 25 of Schedule 10.

- 6.9 Councils have found reporting on community well-being outcomes to be an ongoing challenge. We reported on how well councils reported on these outcomes in their annual reports from 2004 to 2010, after the requirement was introduced. We summarise what we found below.<sup>22</sup>

### Councils did not previously report on well-being outcomes effectively

- 6.10 Although councils were broadly reporting their activities to their communities from 2004 to 2010, many were not clearly reporting the identified effects of their activities on social, economic, environmental, and cultural well-being.
- 6.11 An “identified effect” is a measured or observed effect that can be positive or negative. However, some councils were reporting their intended effects, rather than identified effects.
- 6.12 We said that councils needed systems for measuring the effects of their activities on social, economic, environmental, or cultural well-being so that they could report on them. They needed to actively consider how their activities would affect these four aspects of well-being.
- 6.13 To report on those effects, councils needed to have measures and indicators of well-being as part of their performance frameworks. However, these were either lacking or in development.
- 6.14 It was challenging for councils to identify and report on the full range of effects that an activity could have on social, economic, environmental, and cultural well-being. Some effects were more visible and easily identified than others. However, other effects were less tangible and more difficult to identify, such as the effects of providing museums, art galleries, and community centres on social and cultural well-being.
- 6.15 Overall, we observed little improvement in the information councils presented about the effects of their activities on social, economic, environmental, or cultural well-being from 2004 to 2010. To improve compliance with the reporting requirement, and provide more useful accountability to their communities, we recommended that councils:
- move from restating their intended effects and making general statements related to well-being to specific analysis and reporting of actual identified effects of their activities on well-being; and
  - ensure that the performance management framework was an integrated package that linked community outcomes and the rationale behind their

<sup>22</sup> We have not evaluated how councils reported on well-being in their 2018/19 annual reports. This is because the requirement to report on the four aspects of well-being was reintroduced in May 2019, near the end of the 2018/19 reporting period.

activities to performance measures, targets, and levels of service. With such a linked framework, it would be easier for councils to report on progress towards community outcomes and the identified effects of activities.

- 6.16 We recognised the challenges involved but also the significant benefits of being able to report to communities about the effects of council activities on their well-being.

## Productivity Commission commentary on well-being and outcomes reporting

- 6.17 The Productivity Commission considered local government reporting on community well-being outcomes in its 2019 report *Local government funding and financing*. It also noted the importance of an integrated and linked framework.

- 6.18 The Commission said:

*Consistent with good practice, outcomes reporting should focus on a small number of meaningful metrics that meet well-established criteria for good indicators. An important consideration is the cost-benefit of gathering and analysing the data (measures that are so expensive to generate that they do not provide a net benefit should not be pursued).*

*Another consideration is the overall coherence of the reporting framework. Reporting measures should strategically align – linking the inputs, outputs, outcomes and costs for each activity (or group of activities). They should also not duplicate across these dimensions.<sup>23</sup>*

- 6.19 The Commission recommended a first-principles review of the performance reporting framework in the Act. It considers that the current performance reporting requirements (financial and non-financial) are too detailed, inappropriately focused, and not fit for purpose.
- 6.20 The Commission favours a small set of mandatory measures for financial and non-financial performance, but not for outcomes reporting. The Commission noted that there is a need for flexibility, and that councils should continue to determine the most important outcomes for their communities, based on local preferences and circumstances, and use these to prioritise their activities.
- 6.21 The Commission said that central government could assist by providing guidance on developing robust well-being metrics and supporting the use of consistent data sources (both among councils and between central and local government), where appropriate.

23 Productivity Commission (2019), *Local government funding and financing*, pages 115-116.

## Councils should consider their priority areas for well-being in the 2021-31 long-term plans

- 6.22 Councils giving greater emphasis to well-being is consistent with the Government's current well-being approach. Examples of the Government's approach include the 2019 *Wellbeing Budget* and work by the Treasury on a *Living Standards Framework* to advise successive governments about the likely effects of their policy choices on New Zealanders' living standards and well-being over time.
- 6.23 The local government sector is doing work to help councils with their well-being indicators and frameworks, and is considering how local and central government can work together on this. The Society of Local Government Managers is encouraging councils to produce a "well-being long-term plan".
- 6.24 Attention is also being given to improving how entities report to their stakeholders and making annual reports more useful for readers. Examples include encouraging disclosures about risks and opportunities associated with climate change and applying more sophisticated reporting approaches, such as integrated reporting.
- 6.25 A greater focus on well-being by central and local government, and the various improved reporting initiatives, provide a significant opportunity for collaboration on improving the well-being of New Zealanders and the environment and for more meaningful reporting on results.
- 6.26 As part of preparing their 2021-31 LTPs, councils should consider their priorities for promoting social, economic, environmental, and cultural well-being and their desired outcomes. Councils will need to ensure that their reporting framework links their activities to outcomes and well-being indicators, so that they can report to their communities on the identified effects of their activities on these four aspects of well-being, drawing on the guidance available to help with this.

# Appendix 1

## When councils adopted their annual reports and released their annual reports and summary annual reports

### When councils adopted their annual reports

When the annual report was adopted	Number adopted for financial year				
	2014/15	2015/16	2016/17	2017/18	2018/19
Within two months after the end of the financial year	1	0	0	0	0
Between two and three months after the end of the financial year	16	27	15	15	20
Between three and four months after the end of the financial year	59	49	60	56	54
<b>Subtotal: Number meeting statutory deadline</b>	<b>76</b>	<b>76</b>	<b>75</b>	<b>71</b>	<b>74</b>
<i>Percentage of councils meeting statutory deadline</i>	97%	97%	96%	91%	95%
Between four and five months after the end of the financial year	0	0	2	3	3
More than five months after the end of the financial year	1	1	1	2	1
Not issued as at the date of compilation	1	1	0	2	0
<b>Total</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>78</b>

### When councils released their annual reports

Time after adopting annual report	Number released for financial year				
	2014/15	2015/16	2016/17	2017/18	2018/19
0-5 days	25	28	23	27	34
6-10 days	19	15	19	11	13
11-20 days	8	14	8	16	11
21 days to one month	23	17	22	22	17
<b>Subtotal: Number meeting statutory deadline</b>	<b>75</b>	<b>74</b>	<b>72</b>	<b>76</b>	<b>75</b>
<i>Percentage of local authorities meeting statutory deadline</i>	96%	95%	92%	97%	96%
Number not meeting the deadline	1	3	6	0	3
Not issued as at the date of compilation	2	1	0	2	0
<b>Total</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>78</b>

## Appendix 1

### When councils adopted their annual reports and released their annual reports and summary annual reports

#### When councils released their summary annual reports

Time after adopting annual report	Number released for financial year				
	2014/15	2015/16	2016/17	2017/18	2018/19
0-5 days	14	16	7	15	14
6-10 days	12	14	15	11	8
11-20 days	8	11	11	10	14
21 days to one month	39	29	32	37	36
<b>Subtotal: Number meeting statutory deadline</b>	<b>73</b>	<b>70</b>	<b>65</b>	<b>73</b>	<b>72</b>
<i>Percentage of councils meeting statutory deadline</i>	<i>93%</i>	<i>90%</i>	<i>83%</i>	<i>94%</i>	<i>92%</i>
One month to 40 days	1	6	9	2	6
41-60 days	0	1	4	1	0
More than 60 days	1	0	0	0	0
Not issued as at the date of compilation	3	1	0	2	0
<b>Total</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>78</b>

# Appendix 2

## Sub-sectors and the growth councils

### Sub-sectors

Local Government New Zealand defines four types of sub-sector:<sup>24</sup>

- metropolitan;
- provincial;
- rural; and
- regional (comprising of regional councils and unitary authorities).

We followed these definitions but considered Auckland Council as its own sub-sector separate to the other metropolitan councils because of its size. For the purposes of our analysis, we have grouped the unitary authorities in their respective provincial or rural sub-sectors. The councils that make up each sub-sector are listed below.

<b>Auckland sub-sector</b>		
Auckland Council		
<b>Metropolitan sub-sector</b>		
Christchurch City Council	Dunedin City Council	Hamilton City Council
Hutt City Council	Queenstown-Lakes District Council	Palmerston North City Council
Porirua City Council	Tauranga City Council	Upper Hutt City Council
Wellington City Council	Whangarei District Council	
<b>Provincial sub-sector</b>		
Ashburton District Council	Central Otago District Council	Far North District Council
Gisborne District Council	Hastings District Council	Horowhenua District Council
Invercargill City Council	Kaipara District Council	Kāpiti Coast District Council
Manawatu District Council	Marlborough District Council	Masterton District Council
Matamata-Piako District Council	Napier City Council	Nelson City Council
New Plymouth District Council	Rotorua Lakes Council	Selwyn District Council
South Taranaki District Council	South Waikato District Council	Southland District Council
Tasman District Council	Taupō District Council	Thames-Coromandel District Council
Timaru District Council	Waikato District Council	Waimakariri District Council
Waipa District Council	Waitaki District Council	Western Bay of Plenty District Council
Whanganui District Council	Whakatāne District Council	

Rural sub-sector		
Buller District Council	Carterton District Council	Central Hawke's Bay District Council
Chatham Islands Council	Clutha District Council	Gore District Council
Grey District Council	Hauraki District Council	Hurunui District Council
Kaikōura District Council	Kawerau District Council	Mackenzie District Council
Ōpōtiki District Council	Ōtorohanga District Council	Rangitikei District Council
Ruapehu District Council	South Wairarapa District Council	Stratford District Council
Tararua District Council	Waimate District Council	Wairoa District Council
Waitomo District Council	Westland District Council	
Regional sub-sector		
Bay of Plenty Regional Council	Environment Canterbury	Environment Southland
Greater Wellington Regional Council	Hawke's Bay Regional Council	Horizons Regional Council
Northland Regional Council	Otago Regional Council	Taranaki Regional Council
Waikato Regional Council	West Coast Regional Council	

## High-growth councils

We defined high-growth councils as those that the National Policy Statement on Urban Development Capacity indicated had high growth.<sup>25</sup> We did not include regional councils because none had high growth throughout their entire region. Councils that meet the definition for high growth when we prepared this report were:

- Auckland Council;
- Christchurch City Council;
- Hamilton City Council;
- New Plymouth District Council;
- Queenstown-Lakes District Council;
- Selwyn District Council;
- Tauranga City Council;
- Waikato District Council;
- Waimakariri District Council;
- Waipa District Council;
- Western Bay of Plenty District Council; and
- Whangarei District Council.



# Appendix 3

## Councils that declared a climate emergency in 2019

### In the 2019 calendar year

- Auckland Council – 11 June 2019
- Bay of Plenty Regional Council – 27 June 2019
- Central Otago District Council – 25 September 2019 (the Council declared a “climate crisis”)
- Christchurch City Council – 23 May 2019
- Dunedin City Council – 25 June 2019
- Environment Canterbury – 16 May 2019
- Greater Wellington Regional Council – 21 August 2019
- Hawke’s Bay Regional Council – 26 June 2019
- Hutt City Council – 27 June 2019
- Kāpiti Coast District Council – 23 May 2019
- Nelson City Council – 16 May 2019
- Ōpōtiki District Council – 5 September 2019
- Porirua City Council – 26 June 2019
- Queenstown-Lakes District Council – 27 June 2019
- Wellington City Council – 20 June 2019
- Whangarei District Council – 25 July 2019

# Appendix 4

## Valuation challenges that we believe need to be addressed

This Appendix expands on the valuation challenges we list in paragraph 1.26.

Valuation challenge	Comment
Understanding what an asset's "useful life" is	<p>The useful life of an asset is the least of its physical life, economic life, legal life, or the service benefit it provides. These types of lives are defined as:</p> <ul style="list-style-type: none"> <li>• physical life: the period of time that an asset remains functional and would take account of the condition and performance of the asset;</li> <li>• economic life: the period of time that an asset remains useful to the owner and would take account of technical obsolescence; and</li> <li>• legal life: the period of time that the asset can be legally used.</li> </ul> <p>For the service benefit an asset might provide, councils should look to the level of service the asset provides. If an asset is not meeting the service levels expected of it, then its useful life should be reassessed.</p> <p>Too often, councils consider only the physical life when assessing an asset's useful life.</p>
Regularly reviewing asset useful lives	<p>Councils and valuers will generally reassess asset lives when revaluing assets. Accounting standards require councils to review asset lives in the intervening years.</p> <p>This is not always evident.</p>
Being over-reliant on asset useful lives that have not been properly assessed for the council's situation	<p>The Institute of Public Works Engineering Australasia produces guidance on valuations. This guidance provides indicative ranges of asset useful lives for common council assets. The guidance stresses that this is merely a starting point for each council to make specific assessments.</p> <p>However, many valuations appear to default to the template range without considering the council's own circumstances, such as ground conditions and soil type.</p>
Collecting enough asset condition and performance data	<p>Condition assessments focus on the structural integrity of an asset, while performance assessments measure whether an asset is "performing its job". Aside from being crucial for broader asset management in a council, condition and performance data provides a valuation input on the expected remaining useful life of an asset.</p> <p>Many councils do not yet have systematic and comprehensive asset condition and performance information, so this is not able to assist asset valuations.</p>
Weak records about the cost of asset renewals	<p>To arrive at reliable replacement costs, councils should keep good records on the cost breakdowns of all its renewal and replacement contracts.</p> <p>Often, these records are not as complete as they should be.</p>
Actively considering new asset replacement techniques	<p>Asset revaluations tend to assume traditional methods of renewing assets. Increasingly, new techniques for renewing assets are being identified, often at a lower cost than the traditional methods.</p> <p>Revaluations often do not consider these new techniques, which might mean that the replacement cost of the asset and the resultant depreciation is more than it should be.</p>

Valuation challenge	Comment
Ensuring that council staff who rely on valuation information are involved early in the valuation process so the valuation meets everyone's needs	<p>We tend to find that the key people involved in an asset valuation, the valuer and councils' asset management, finance, information technology and planning staff, are not involved early enough in the valuation process. This lessens the effectiveness of the resulting valuation, because the valuation process does not consider all relevant views.</p> <p>Effective collaboration, especially at the initial stage, would set the valuation parameters, agree the valuation methodology and articulate the valuation assumptions in a way that works for all.</p>
The industry guidance developed by the Institute of Public Works Engineering Australasia that councils use to inform asset valuations is updated	<p>The Institute of Public Works Engineering Australasia guidance was last updated in 2006. The Institute of Public Works Engineering Australasia has signalled that an update is an urgent priority. Although the core methodology is still sound, the guidance needs to be reviewed to take account of:</p> <ul style="list-style-type: none"> <li>• the latest financial reporting standards;</li> <li>• increasing the types of assets covered by the guidance; and</li> <li>• updating common asset useful lives where they have changed.</li> </ul>



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# Attachment 5



1 July 2020

| John Ryan

Tēnā koe

## 2021-31 LONG-TERM PLANS

I am writing to you about council long-term plans. When I took up this role, one piece of feedback I received was that you would like to see more guidance from my Office on key issues, including long-term plans (LTP). This letter sets out some of the work we are planning to carry out to support councils during the LTP process.

Long-term planning has never been more important. I recognise that the preparation of an LTP is a significant task. There are important strategies and policies to be reviewed and underlying information to be considered. However, the opportunities in planning for the long term, being transparent, and engaging with the community cannot be underestimated, particularly in the current environment. The risks and issues presented by Covid-19 have added complexity to all councils' planning processes, and the challenges you face as your communities recover are likely to continue.

To assist councils with preparing for the 2021-31 LTPs, my Office plans to send you regular bulletins during the remainder of the year. These bulletins are intended to help you as governors as you engage in the LTP process.

The first bulletin, attached to this letter, outlines some of the basics – the purpose of an LTP, the LTP consultation document, and the role of my auditors throughout the LTP process. It also has questions for you to consider in respect of your oversight of the LTP project. Although many of your councillors are no doubt well versed in LTPs, for others the information in this bulletin may be helpful background.

Other topics we plan to cover are:

- LTP financial and infrastructure strategies;
- the importance of good underlying asset information;
- recovery from the Covid-19 economic downturn; and
- planning for asset renewals.

If there are other topics you would find useful, please let us know.

To ensure that the audit approach is both effective and efficient, we have reviewed my auditors' approach to auditing LTPs. This review has included considering the feedback we have received from councils about previous LTP audits.

I have also been considering audit fees for the 2021-31 LTP audit round. As you are aware there have been significant cost increases for both councils and auditors since fees were set for the 2018-28 LTPs. While I recognise our operating environment, I am also aware that it is not possible to absorb the significant cost increase from the last three years that auditors have experienced. My aim is to set audit fees at a level I consider will be fair and reasonable to councils, and enable my auditors to deliver the high-quality audits that we both expect. I will write to you separately on fee matters shortly.



In the meantime, if you would find it helpful for one of our local government team to speak with your council about the upcoming LTP, we would be happy to arrange this. Please feel free to contact Andrea Reeves (Assistant Auditor-General, Local Government) on [andrea.reeves@oag.parliament.nz](mailto:andrea.reeves@oag.parliament.nz) or 021 222 8521.

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'J. Ryan'.

**John Ryan**

Controller and Auditor-General

cc Chief Executive

# *Appendix 1*



# Preparing for long-term plans

The need for long-term planning has never been more important. Recovering from Covid-19 will take a long time and councils need to be clear about the implications. Your council's next long-term plan (LTP) is an important mechanism for engaging with your community and achieving accountability and transparency. Your position as an elected member is critical for ensuring that the LTP process is the best it can be in these challenging times.

## The consultation document

The main purpose of the consultation document is to provide an effective basis for public participation on the proposed content of the LTP.

The consultation document is expected to inform members of your community and encourage them to provide their views on the most significant issues and choices for your council and their financial and service implications. The consultation document is intended to be a concise and accessible document that people in your community can understand and engage with.

## The long-term plan

Your council's LTP gives a long-term focus for its decisions and activities. The LTP also provides accountability to the community – having considered their feedback during the LTP consultation period.

LTPs outline the activities a council does and how these activities fit together. They cover what activities will be completed over the LTP's 10-year period, why the council chose those activities, and the costs of those activities to the community.

There are long-term issues facing your council and community, such as climate change, water quality and infrastructure renewal. How your council manages these as part of the Covid-19 recovery, process is important. This reinforces the importance of long-term planning, community engagement, and accountability for decisions and transparency about any trade-offs.

## The role of audit

The Local Government Act 2002 requires the Auditor-General to audit the consultation document and the LTP. In both cases, the audit report must cover:

- whether the document gives effect to the purpose set out in the Act; and
- the quality of the information and assumptions underlying the forecast information provided in it.

Our audits provide the community with independent assurance that the documents meet their statutory purposes and are based on good information and assumptions. This adds credibility and acceptance to published information.

## Project management and oversight

Preparing an LTP is a significant task that requires careful project planning. There is a lot of information to consider, for example, the current matters facing your local community, the state of your current assets, and future expectations and intentions.

As your council's elected representative, decisions about the content of the LTP are for you to make. It is therefore important that you have the opportunity to contribute to the content that goes into your

council's LTP. You should be aware of what decisions you will be expected to make and at what point during the LTP process you will need to make them.

We provide some questions for elected members to consider about oversight of the LTP project.

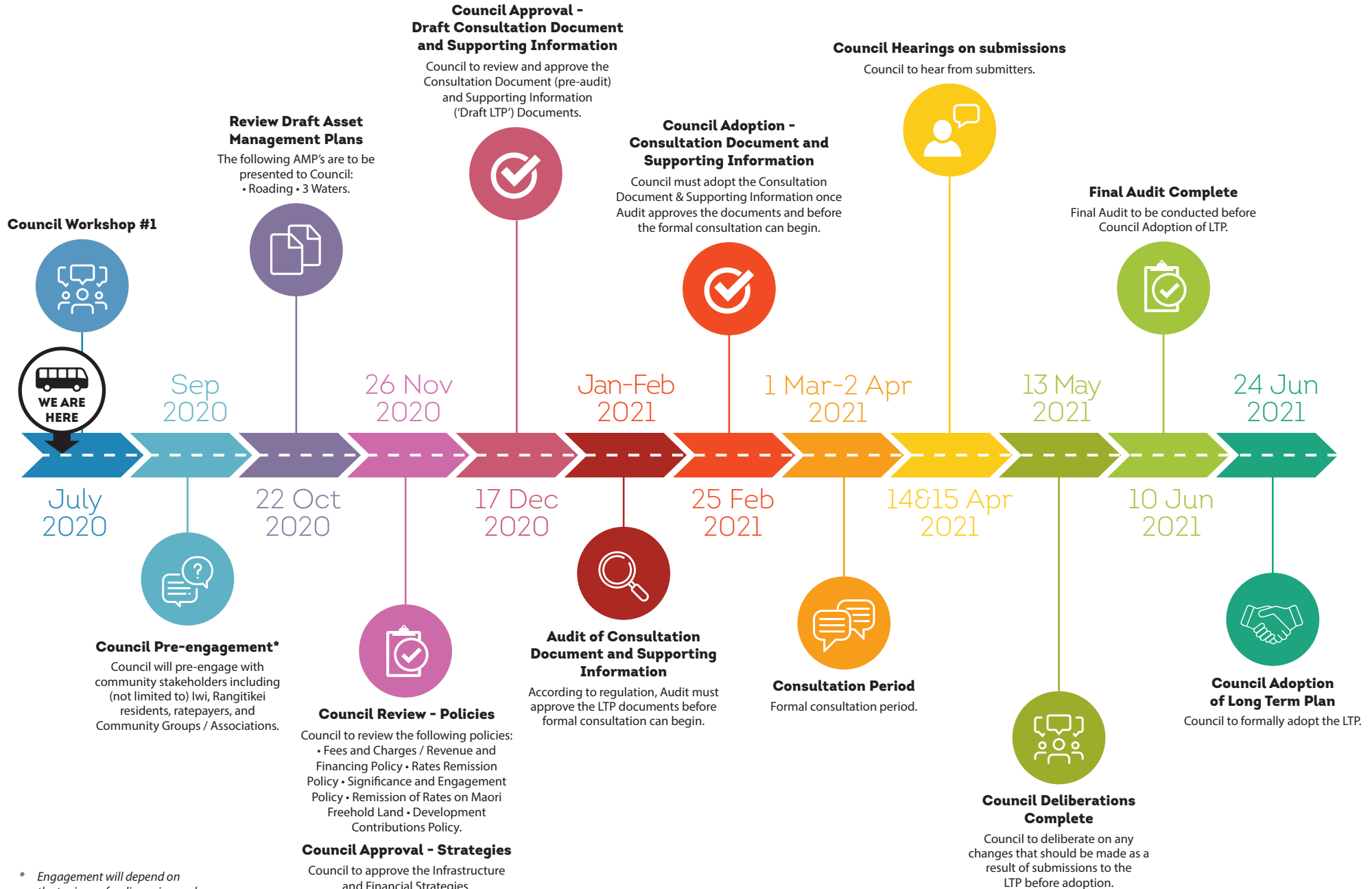
## Some questions for elected members to consider

- Are you receiving regular progress reports on the LTP planning process?
- Are you able to provide guidance and input into the LTP planning process?
- Do council staff have clearly defined roles and responsibilities in the preparation of important LTP documents?
- Are you comfortable with the proposed process and time frame for final decision-making for the LTP?
- Are you satisfied that the proposed LTP consultation process will be effective, reach all parts of your community, and ensure that community feedback is captured and reported to you?
- Are you able to provide guidance and input into significant challenges and judgements your council is facing?

# *Appendix 2*

# Key Milestones - Road Map

## LONG TERM PLAN



\* Engagement will depend on the topics up for discussion and strategic direction of Council.

# Attachment 6



# Three Waters Reform Programme

A proposal to transform the delivery of three waters services

## 1. BACKGROUND

Over the past three years central and local government have been considering solutions to challenges facing the regulation and delivery of three waters services. This has seen the development of new legislation and the creation of Taumata Arowai, the new water services regulator.

Both central and local government acknowledge that there are broader challenges facing the delivery of water services and infrastructure, and the communities that fund and rely on these services. There has been regulatory failure, underinvestment in three waters infrastructure in parts of the country, and persistent affordability challenges.

Iwi/Māori also have a significant interest in te mana o te wai. Both central and local government acknowledge the importance of rights and interests under the Treaty of Waitangi and the role of the Treaty partners in progressing these issues.

Additional investment is required to increase public confidence in the safety of drinking water, and to improve environmental outcomes. The reform of three waters services will also support increased sustainability and resilience of communities to natural hazards and climate change.

## 2. CHALLENGES

**THE EXISTING INFRASTRUCTURE DEFICIT**

Quantifying the precise infrastructure gap remains challenging. The Office of the Auditor General (OAG) has raised concerns about relevant and reliable information about assets remaining a challenge.

**UNGRADED ASSETS**

Potable & wastewater45%

Stormwater categorised as upgraded52%

**RENEWAL GAPS**

Forecast average renewals as proportion of forecast average depreciation for:

Water supply82%

Wastewater67%

Stormwater52%

While unquantified in New Zealand due to limited asset quality data, experience from places like Scotland that have undertaken significant water services reforms indicates the bulk of asset replacement value (potentially up to 80%) and the accumulated infrastructure deficit likely lies in renewal of pipes rather than treatment plants.

**FURTHER RESEARCH COMMISSIONED BY DIA FOUND:**

\$309-\$574 million

Estimated cost for upgrading networked drinking water treatment plants to meet drinking water standards, with an additional annual operating cost of \$11-\$21 million.

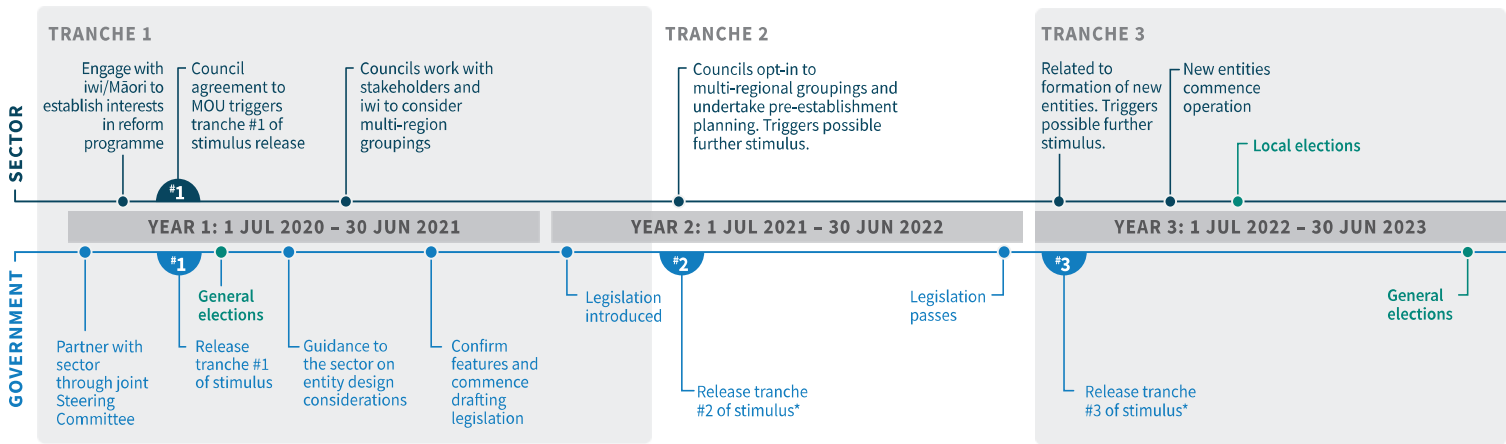
\$3-\$4 billion

Estimated cost for upgrading wastewater treatment systems that discharge to coastal and freshwater bodies to meet national minimum discharge standards, with an annualised operating cost of \$126-\$193 million.

## 3. OBJECTIVES

- A** Significantly improving safety and quality of drinking water services, and the environmental performance of wastewater and stormwater systems.
- B** Ensuring all New Zealanders have equitable access to affordable three waters services.
- C** Improving resource coordination and unlocking strategic opportunities to consider national infrastructure needs at a larger scale.
- D** Increasing resilience of three waters service provision to both short- and long-term risks and events, particularly climate change and natural hazards.
- E** Moving three waters services to a financially sustainable footing, and addressing the affordability and capability challenges faced by small suppliers and councils.
- F** Improving transparency and accountability in cost and delivery of three waters services, including the ability to benchmark performance of service providers.

## 5. INDICATIVE REFORM PATHWAY



## 6. PROPOSED PROCESS

**An opt-in reform and funding programme to:**

- Stimulate investment, to assist economic recovery through job creation, and maintain investment in water infrastructure renewals and maintenance.
- Reform current water service delivery into larger scale providers, to realise significant economic, public health, environmental, and other benefits over the medium- to long-term.

**Progressed in phases:**

- Three phases of reform with three tranches of investment proposed (as set out above). The first phase of the programme includes a Memorandum of Understanding between central and local government to progress the reform in partnership. Reform will be guided by a joint Steering Committee at key stages.

**Memorandum of understanding:**

- Non-binding MOU between each Council and Government.
- Does not commit Councils to reforming water services or transferring assets.
- Enables Councils to access funding for three waters through an associated Funding Agreement and Delivery Plan.

## 4. KEY FEATURES

- Design features of the proposed reform programme should examine, as a minimum:
- A** Water service delivery entities that are:
  - of significant scale (most likely multi-regional) to enable benefits from aggregation to be achieved over the medium- to long-term;
  - asset-owning entities with balance sheet separation, to support improved access to capital, alternative funding instruments and improved balance sheet strength; and
  - structured as statutory entities with appropriate and relevant commercial disciplines and competency-based boards.
- B** Delivery of drinking water and wastewater services as a priority, with the ability to extend to stormwater service provision only where effective and efficient to do so.
- C** Publicly owned entities, with a preference for collective council ownership.
- D** Mechanisms for enabling iwi /Māori and communities to provide input in relation to the new entities.

## 7. FUNDING AND IMPACT

Government funding	\$761 million
Jobs protected or created	(direct) 2,288 jobs
	(direct, indirect, induced) 7,230 jobs
GDP increase	(direct) \$236 million
	(direct, indirect, induced) \$800 million

**ALLOCATION OF FUNDING**

First tranche funding provided as a grant to Councils who opt-in to participate in the reform process.

Allocation is based on a simple formula applied on a nationally consistent basis.

Future additional funding will be subject to Government decision-making and reliant on progress against the reform objectives.

**INDICATIVE ALLOCATION SUBJECT TO CONFIRMATION**

**LEGEND**

- Metropolitan Councils (50%)
- Provincial Councils (37%)
- Rural Councils (13%)