

# Report to the Council on the audit of

Central Otago District Council's  
Long-term Plan Consultation  
Document for the period  
1 July 2021 to 30 June 2031

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## Key messages

We have completed the audit of Central Otago District Council's (the Council's) Consultation Document (the CD) for its 10-year Long-term Plan (LTP) covering the period 1 July 2021 to 30 June 2031. The Council will adopt its LTP in June 2021. This report sets out our findings from the audit of the CD stage of the LTP.

### **Audit opinion**

We issued an unmodified opinion on Council's CD on 24 March 2021. This means that we are of the opinion that the CD provides an effective basis for public participation in the Council's decision-making processes relating to the content of the 2021-31 LTP.

We included an emphasis of matter paragraph in the opinion drawing attention to the disclosure in the CD outlining the Government's intention to make three waters reform decisions during 2021.

### **Areas of audit focus**

#### **Preparation of the CD and underlying information**

The development of a CD together with the required underlying information is a large and complex task. For this LTP there were restraints outside of Council's control with staff members leaving part way through the preparation and audit process. This included members of both the infrastructure and finance teams. The buy-in of other members of the team was important in ensuring Council met agreed timelines and whilst we were able to issue an audit opinion on the agreed date, we acknowledge that there was significant pressure on both the council and audit teams as a result of delays across the organisation and less than ideal communication between teams within the Council's organisation.

Unfortunately, the time constraints and workload had a detrimental impact on not just the timeliness of the information we received but also meant that there was limited time for quality review by those preparing the information. This meant it fell on Audit NZ to complete some of those quality assurance tasks that Council did not have the capacity to do, such as identifying inconsistencies between documents and spotting modelling errors. Some of this is expected to be done in any audit, but more was done than planned.

#### **Audit of the final LTP**

As well as the opinion issued on the CD, we will also issue an opinion on the final LTP that will be adopted by 30 June 2021, following the Council's consideration of public submissions. To ensure our audit of the final LTP is efficient, we expect the Council to prepare and provide us with a schedule of changes to the financial forecasts and other underlying information that were the basis for the CD.

## Thank you

We would like to thank the Council, management and staff for their assistance during the audit.

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

Dereck Ollsson  
Audit Director  
24 March 2021

# 1 Our audit report

## 1.1 We issued an unmodified audit report on the CD



We issued an unmodified audit report on 24 March 2021.

This means we were satisfied the CD meets the statutory purpose and provides an effective basis for public participation in the Council's decision about the proposed content of the 2021-31 LTP. We also found the underlying information and assumptions used to prepare the CD are reasonable.

We included an 'emphasis of matter' paragraph in our audit opinion to draw the reader's attention to the disclosure in the CD outlining the Government's intention to make three waters reform decisions during 2021. The effect that the reforms may have on three waters services provided by the Council is currently uncertain because no decisions have been made. The CD was prepared as if these services will continue to be provided by the Council, but future decisions may result in significant changes, which would affect the information on which the CD has been based.

## 1.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatements that have not been corrected are listed below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

- Working capital was not inflated throughout the 10 year period, using the inflation rate provided by Council, and used in other forecasting, the impact in any given year varies between a minimum of \$39,000 in year six to a maximum of \$1,628,000 in year 10.

Management did not adjust this misstatement on the basis of materiality.

## 2 Control environment



Our approach to the audit was to identify, confirm and assess the Council's key processes and controls over the underlying information and ultimate production of both the LTP CD and the LTP. The purpose of this assessment was to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions.

We consider the asset management control environment to be sufficiently reliable for the purpose of supporting the LTP CD and LTP. We consider the Council's overall control environment sufficiently effective for the purpose of producing the LTP CD and LTP documents.

## 3 Areas of audit focus



During the planning stage of the audit, and our review of the content of the LTP CD, we identified the following key risks and issues which were areas of focus during our audit. In this section of the report, we comment on our findings on those matters.

### 3.1 Covid-19

The response to manage the impacts of the Covid-19 pandemic has created significant uncertainty for businesses, local and central government organisations, as well as communities and families.

The Council assumed a business as usual approach to forecasts, with no assumed periods of lockdown or community transmission of Covid-19, and an assigned low level of uncertainty to the assumption.

Council have not seen a significant impact on its revenue streams or activities yet and is therefore assuming normal land sales and relevant development and financial contributions. Our testing of the assumption included ensuring that it is applied consistently through the underlying information, as well as its application in the financial model. We confirmed that no reduction in revenue or changes to levels of service have been applied in the forecasts as the Council has assumed no significant periods of lockdown.

The ongoing impacts of Covid-19 have been considered as part of the LTP through:

- The population growth assumption whereby Rationale provided their external expertise to Council on the impact, or lack of, Covid-19 on the growth of the District.
- The BERL inflation rate which already has updated economic scenarios since Covid-19, and therefore we are comfortable that appropriate consideration has been made.

We concluded that the Covid-19 assumption is reasonable, and Council have appropriately considered the impact on its financial & infrastructure strategies, and key underlying assumptions.

### 3.2 Climate change

The Council declared a climate crisis in September 2019 and have developed an organisational sustainability team along with a sustainability strategy that was adopted by Council in 2019.

Council have outlined the potential impacts of climate change for infrastructure in its infrastructure strategy. We also understand Council are measuring emissions and plan to

use the results of this to make more conscious decisions. Council have included projects in their infrastructure strategy that they are planning to complete that will reduce emissions. By measuring emissions, Council are going to be able to utilise this information to make better informed procurement plans in the future to ensure environmentally conscious decisions are made.

Council have illustrated in their infrastructure strategy, the potential impacts on communities from climate change, along with the initiatives they are undertaking to mitigate these. This largely focuses on the impacts of flooding and overflows on the three waters and roading infrastructures in parts of the district. We are comfortable that these have been appropriately considered and disclosed.

We have reviewed the Council’s climate change assumption and conclude it is reasonable and supportable with an appropriate level of uncertainty of medium. The Council has been taking steps in the right direction to identify and mitigate climate change. This has been clearly set out within the LTP, CD and the Infrastructure strategy.

### 3.3 Capital expenditure “do-ability”

We noted in the past that the Council has mostly met its capital programme with the following analysis performed on whole of council capital expenditure in annual reports comparative to the 2018-2028 LTP.

Application of Capital expenditure	Actual to Budget
To meet additional demand	112%
To improve the level of service	86%
To replace existing assets	106%

We have assessed the capital programme for each of the next 10 years and consider it reasonable compared to what the Council has been able to deliver in the last few years.

Council have appropriately disclosed a capital expenditure completion rate with an appropriate level of uncertainty of medium to high. This is based on the above historical performance.

### 3.4 Three waters reform

Council have made the assumption it will continue to own and directly operate the three waters networks and have indicated a high level of uncertainty around this assumption. The impact on its operations and finances has also been included.

The Council has included disclosure around the three-waters reforms in the consultation document. We accept the Council assumptions as reasonable as they have assumed business as usual (BAU) for the full LTP period. We have confirmed BAU for the three



waters through our discussions with management and review of the asset management plans, which we have also confirmed are correctly flowed through to the LTP. Due to the significant impact the three waters reform would have on the Council, we included an EOM paragraph in our audit report to draw attention to the disclosure made by the Council.

### **3.5 Asset information to inform its renewals expenditure**

The renewals programme, which is a significant part of the total capital programme, is based on a number of factors, including the condition and performance of the Council's assets. As such, it is important that the Council has good knowledge of the condition and performance of its assets.

In respect of these activities, the infrastructure strategy discloses information on the asset condition, the effect on forecast, and the source of rating for Council's infrastructure assets.

Overall, we were satisfied that the asset information was sufficient to allow for informed renewals and forecasting in the LTP. Areas of focus for us included water supply pipes, water supply and wastewater treatment plants which all had a confidence grade of "C".

Water supply pipe assets confidence grades were derived from a desktop assessment and physical examination of forty pipes of similar materials. Given the average age of water supply's pipe network, planned renewals comparative to useful lives, and our materiality we concluded that the information Council has for planning purposes is reasonable.

We acknowledge the Council's data improvement plan and the project to update condition assessments as part of the water stimulus delivery plan and we encourage this.

Water supply and wastewater treatment plants are identified in Council's infrastructure strategy as having a moderate effect on the forecasts and no formal condition assessment has been performed. We acknowledge that proactive maintenance programmes are in place for pump stations and treatment plants. These aren't specifically condition assessments, but we understand the inspections include physical inspections and cleaning/recalibration of key parts of the assets. Quality of water and volume data is recorded, and any faults are reported. Given this, our materiality, and Council's plans to undertake a project in 2021 to re-collect treatment site asset data and undertake a condition rating of these assets, we have concluded the information Council has for planning purposes is reasonable.

### **3.6 Financial Strategy**

The financial strategy seeks to address anticipated pressures arising from increased demand for levels of service due to growth, as well as from the requirements of the national standards. These pressures will inevitably have an impact on rates and Council has outlined plans to use debt to manage these pressures and to ensure that the future ratepayers, who will use these services, pay an appropriate share of these significant costs. Council are focused on managing its asset base and operational expenditure in a

cost-effective manner and continuing to fund these activities in a manner that is sustainable for the Council and its communities.

The Council is in a strong financial position with borrowings well below the quantified limit for the first four years of the LTP, and no breaches in covenants or limits forecast.

The key elements of the financial strategy are:

- Debt Limit: A borrowing limit of 10 percent of total assets has been set.
- Rate Revenue Limit: Rates Income will not exceed 80 percent of Council's total income.
- Rate Increase Limit: Average rate increases to existing ratepayers will not exceed 5 percent per annum. This excludes the provision for growth.
- While the District Council is contributing significantly to growth, the strategy is that those users who benefit from growth should pay for their appropriate share, through Development Contributions or Financial Contributions.
- To respond to increasing environmental and national standards through significant capital projects such as water treatment upgrades, more secure water sources, upgraded wastewater pump station storage volumes and road flooding improvements.

The Council has forecast operating surpluses, so the balanced budget is achieved for each of the 10 years of the LTP. Operating surpluses are generally allocated to fund capital works or transferred to reserves to fund expenditure in future years.

We are satisfied that the financial strategy is fit for purpose and the supporting underlying information is considered reasonable. We have confirmed that the strategy complies with the requirements of section 101A of the Local Government Authority Act 2002 and it meets the purpose outlined in subsection 2. We have reviewed the Financial Strategy's links to the financial model, asset management plans (AMPs) and infrastructure Strategy. We are satisfied that these are appropriately aligned.

### **3.7 Infrastructure Strategy**

We have developed an understanding of the District's infrastructure strategy and evaluated the local authority's compliance with the requirements of the Local Government Act 2002. We also gained an understanding as to how it is funding renewals and its overall approach to managing the assets laid out in the infrastructure strategy.

The infrastructure strategy clearly outlines that maintaining the infrastructure the Council owns is priority. A renewals programme has been developed for the Council assets over the 30-year period and revenue levels are set to ensure sufficient funds are available for when the renewal needs to occur. Council have considered growth demands detailed in the infrastructure strategy and AMPs, and the document is clear that the aging and increasing

population will have an impact on assets and appropriately outlines how this will likely occur.

We performed work to ensure that the:

- Infrastructure Strategy is aligned with the financial strategy;
- information in the financial model reconciles with the Infrastructure Strategy;
- Infrastructure Strategy supports accountability;
- correlation between depreciation and renewals is reasonable; and
- content of the Infrastructure Strategy document includes everything necessary to achieve its statutory purpose.

Overall, we are satisfied that the Infrastructure Strategy is fit for purpose and the supporting underlying information is considered reasonable. It fulfils the legislative purpose and meets our expectations of such a document and is consistent with our knowledge of asset management planning for the Council.

## 4 Other matters



### 4.1 Growth assumption and the National Policy Statement on Urban Development 2020

The Council has assumed the district’s population will grow to 34,474 by 2050. This assumption is based on a report from external experts Rationale. The assumption included in the Council’s underlying information is in line with our expectations and has been allocated an appropriate level of uncertainty.

Our testing of the assumption included ensuring that it is applied consistently through the underlying information, including its application in the financial model. We are satisfied that the growth assumption is supported, reasonable, and consistently applied throughout the underlying information.

The National Policy Statement (NPS) on Urban Development 2020 came into effect in August 2020. The Council has been identified as being a “tier 3” Council. The Policy Statement requires local authorities to plan well for growth and ensure a well-functioning urban environment for their communities and future generations. CODC is a Tier 3 urban environment so the requirements are less challenging than for other councils and the updates to forecasts are only due to be done for tier 1 entities by 30 June 2021. The Council has not factored the National Policy Statement on Urban Development into their growth assumption however we do not deem this a significant issue.

### 4.2 National Policy Statement on Freshwater Management 2020

While the Freshwater National Policy Statement is largely the responsibility of Regional Councils, the Council has acknowledged that they have a role to play under the policy and have included detail in their AMPs for the obligations they are required to meet.

### 4.3 Other assumptions

We have also reviewed how the other significant assumptions are derived, including for inflation, interest, NZTA funding, depreciation, and revaluations. We are satisfied that the Council has an appropriate system to determine these assumptions and that they are reasonable, supportable, and are appropriately applied in the financial forecasts.

## 5 Next steps for Council



### **Audit of the final LTP**

The next step in the LTP audit process will be the audit of the final LTP. This is scheduled to be undertaken in the week commencing 8 June 2021. To ensure our audit of the LTP is efficient we expect the Council to prepare a schedule of changes to the financial forecasts and other associated documents that were the basis of the LTP CD. This will enable us to assess the extent of changes as a result of community consultation and tailor our audit work accordingly.

Under section 94(1) of the Act, our audit report on the final LTP forms part of the LTP, which the Council is required to adopt before 1 July 2021 (section 93(3)). Our agreed timeframes will enable us to issue our audit report in time for the Council meeting on 30 June 2021, at which time the 2021-31 LTP will be formally adopted.

We are responsible for reporting on whether the LTP meets the statutory purpose and provides a reasonable basis for integrated decision making by the Council and accountability to the community. We considered the quality of the underlying information and assumptions as part of the audit of the LTP CD. Our next visit we will focus on how these are reflected in the LTP. We will consider the effect of the decisions that come out of the consultation process and review the LTP to gain assurance that appropriate, material, consequential changes and disclosures have been made.

At the conclusion of the LTP audit, we will ask the Council to provide us with a signed management representation letter on the LTP. The audit team will provide the letter template during the LTP audit.

## Appendix 1: Mandatory Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the consultation document and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.</p> <p>The audit of the consultation document does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter dated 14 October 2020 contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>, the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i>, and the Auditor-General's auditing standards.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit of the Consultation Document we have carried out engagements in the areas of the annual report, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Council.</p>
Fees	<p>The audit fee for the year is \$85,200 (excl. GST), as detailed in our Audit Engagement Letter.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council during or since the end of the financial year.</p>

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