

HUTT CITY COUNCIL

KOMITI ITI AHUMONI I TŪRARU | AUDIT AND RISK SUBCOMMITTEE

Meeting to be held via Zoom on
Tuesday 27 August 2024 commencing at 2:00 pm.

SUPPLEMENTARY ORDER PAPER

PUBLIC BUSINESS

5. **HUTT CITY COUNCIL GROUP ANNUAL REPORT 2023/24 AND UPDATE ON
EXTERNAL AUDIT PROCESSES - APPENDIX 2: AUDIT NEW ZEALAND FINAL
MANAGEMENT REPORT ON THE LONG TERM PLAN 2024-2034**

Appendix 2: Audit New Zealand Final Management Report on the
Long Term Plan 2024-2034

2

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DEMOCRACY ADVISOR

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of

Hutt City Council's long-term plan
for the period

1 July 2024 to 30 June 2034

Contents

Key messages	2
1 Our audit report.....	4
2 Matters raised in the Audit Engagement Letter and key audit findings.....	6
Appendix 1: Disclosures	9

Key messages

We have completed the audit of the Hutt City Council's (the Council) long-term plan (LTP) period commencing 1 July 2024 to 30 June 2034.

This report sets out our findings from the final stage of the LTP audit. This report should be read in conjunction with our long-term plan consultation document report to the Council dated 17 April 2024. Our consultation document report included audit findings on the quality of asset-related forecasting information (including condition and performance information of critical assets) and our recommendation, which is in progress.

Audit opinion

We issued a qualified report on the Council's LTP on 27 June 2024.

Our opinion was qualified, as our work on the value of three waters assets was limited. Council is in the process of obtaining independent valuation of its three waters assets in preparation for its 2024 financial statements. There are indications that the increase in the value if these assets could be significantly higher than the assumptions applied in the Council's prospective financial statements. However, the valuers work is not finalised. We were therefore unable to determine whether the assets value required any adjustments and what flow on effects this could have on future depreciation costs and rates.

Except for the possible effects of the matter described above the plan provides a reasonable basis for:

- long-term, integrated decision-making and co-ordination of the Council's resources; and
- accountability of the Council to the community.

The information and assumptions underlying the forecast information in the LTP are reasonable.

Without further modifying our opinion, we included two emphasis of matter paragraphs in the audit report drawing a readers' attention to certain disclosures in the LTP.

These included:

- Uncertainty over the delivery of the capital programme.
- Uncertainty and risks over planned renewals of three water assets.

Key audit findings

We identified the following significant matter since our LTP consultation document audit:

Value of the three waters

As noted above there are indications that the increase in the value of three waters assets could be significantly higher than the assumptions applied in the Council's prospective financial statements. However, the valuers work is not finalised.

We were therefore unable to determine whether the value required any adjustments and what flow on effects this could have on future depreciation costs and rates, which resulted in a qualified audit opinion.

Thank you

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



John Whittal
Appointed Auditor
31 July 2024

1 Our audit report

1.1 Scope of our audit

The scope of our audit engagement and our respective responsibilities are contained in our Audit Engagement Letter dated 28 February 2024.

1.2 Our opinion was modified



We issued a qualified audit opinion on the Council's LTP on 27 June 2024. Our opinion was qualified, as our work on the value of three waters assets was limited. Council is in the process of obtaining independent valuation of its three waters assets in preparation for its 2024 financial statements. There are indications that the increase in the value if these assets could be significantly higher than the assumptions applied in the Council's prospective financial statements. However, the valuers work is not finalised.

Because the revaluation will only be completed after the date of the audit report, our work on the value of these assets was limited. There were no satisfactory audit procedures that we could adopt to determine the reasonableness of the value of these assets. We were therefore unable to determine whether the value required any adjustments and what flow on effects this could have on future depreciation costs and rates.

- In our opinion, except for the possible effects of the matter described above the plan provides a reasonable basis for:
 - long-term, integrated decision-making and co-ordination of the Council's resources; and
 - accountability of the Council to the community.
- The information and assumptions underlying the forecast information in the LTP are reasonable.
- The disclosures on the relevant pages on the plan represent a complete list of the disclosures required by Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations) and accurately reflect the information drawn from the plan.

Without further modifying our opinion, we draw attention to the following disclosures:

Uncertainty over the delivery of the capital programme

The Council is proposing a significant increase in its capital programme. While the Council has put in place a number of initiatives, there is an inherent level of uncertainty and risk that the Council may not be able to deliver on the programme, especially when it has increased substantially. The Council notes the potential impacts of not achieving the capital programme, such as not meeting planned levels of service, or greater costs in the long-term.

Uncertainty and risks over planned renewals of three waters assets

The Council cannot fund all the investment required in three waters assets over the next 30 years. The Council's proposed level of funding for renewals over the 10 years of the plan has therefore been capped by what it considers to be affordable.

The Council's forecasting for its three waters assets is primarily based on the age of existing assets. Using mostly age-based information creates uncertainty over which assets to prioritise for renewal, the timing thereof, and the forecast amounts required, resulting in a risk of asset failure and reduced levels of service.

To reduce the risk, the Council has committed funding to repair the backlog of leaky pipes and to continue to collect better information about its underground assets.

Council has disclosed the funding constraints and use of age-based renewals in the long-term plan. We are satisfied that the disclosure adequately explains the risk/uncertainty.

1.3 Unadjusted misstatements

During the audit, we have discussed with management any misstatements that we found, other than those that were clearly trivial.

The Council has corrected all significant misstatements except the following:

Note	Statement of comprehensive income		Statement of financial position	
	Dr \$000	Cr \$000	Dr \$000	Cr \$000
1	7,187,988			7,187,988

Explanation for uncorrected misstatements

In June 2024, New Zealand Transport Agency Waka Kotahi (Waka Kotahi) provided indicative investment levels for continuous programmes (indicative funding for continuous programmes) as part of developing the 2024-27 National Land Transport Programme (the NLTP). Council had already completed its final LTP deliberations prior to the identification of the overprovision of NZTA revenue and resulting understatement of liabilities. As the amount is not material and the deliberations completed, it was decided that the correction would not be made.

2 Matters raised in the Audit Engagement Letter and key audit findings



In our Audit Engagement Letter, we identified matters we would focus on during the audit. In addition to our comments on these matters and our other key audit findings raised in the consultation document report to Council, we note the following:

2.1 Infrastructure strategy

We assessed changes in the infrastructure strategy and changes to planned expenditure arising as a result of consultation. The key changes identified were increased expenditure for the following:

- Outyears Micromobility to extend the current funding;
- Riverlink project funding based on updated costing information; and
- Capital expenditure for Petone assets.

In conclusion, we are satisfied that the infrastructure strategy fulfils the legislative purpose, meets our expectations of such a document and is consistent with our knowledge of asset management planning for the Council.

2.2 Asset revaluation

The audit team was provided a draft of the Council's water services valuation provided to Council on 30 May 2024. The report is still in draft and is not a complete valuation of the asset class as it only includes reticulation assets (overground assets are yet to be valued separately). The Council is reviewing the report and waiting on final report including above ground assets.

The Council last revalued its water services assets at 30 June 2022. The previous valuation was completed by AON, while the current valuation is being completed by WSP. As noted previously in section 1.2 of this report there are indications that the increase in the value of three waters assets could be significantly higher than the assumptions applied in the Council's prospective financial statements. However, the valuers work is not finalised.

Because the revaluation will only be completed after the date of the audit report, our work on the value of these assets was limited. There were no satisfactory audit procedures that we could adopt to determine the reasonableness of the value of these assets. We were therefore unable to determine whether the value required any adjustments and what flow on effects this could have on future depreciation costs and rates, which resulted in a qualified audit opinion.

2.3 Capital expenditure “do-ability”

The Council has a planned capital investment spend of \$2.7b for the 10 years of the LTP.

Since the consultation stage, the increase in capital investment is largely attributed to increases for three waters capex projects for Cycling Micromobility Programme under Transport Projects, the Riverlink Project and Petone assets.

The Council remained positive about its delivery of capital programmes (the do-ability) during the duration of the LTP. The additional expenditure was not considered significant enough to change our assessment about the level of uncertainty over the do-ability of the capital programme from our assessment at the consultation document stage.

We therefore concluded that the inherent risk identified at the consultation document stage remains the same and the emphasis of matter paragraph in our audit opinion relating to the uncertainty over the delivery of the capital programme should remain.

2.4 Waka Kotahi funding

In June 2024, Waka Kotahi provided indicative investment levels for two of the continuous programmes (indicative funding for continuous programmes) as part of developing the NLTP. The continuous programmes relate to specific activity classes.

We reviewed the Council’s reconciliation of projects that qualify for this indicative funding and confirmed that the LTP reflects a shortfall in funding of \$7 million. The Council has decided not to adjust for this in the LTP at this stage and has indicated that it will cover this shortfall by considering the impacted programme of work further, or the shortfall can be made up with borrowings which the Council has available.

We consider that this shortfall represents an unadjusted error in the LTP and have included the error on our misstatements schedule. The impact of the Waka Kotahi funding shortfall is not material (refer to section 1.3 of this report).

2.5 Wellington Water

In May 2024 an error of \$20 million was identified over the first three years of the 10 year plan. This was due to WWL’s corporate cost, which had not been included in the advice provided to Council, relating to major three waters projects carried out within the capital programme.

The Council addressed the funding shortfall by rephasing projects to allow the absorption of these costs within the Three Waters programme. There was no service level impacts identified by Council or WWL as a result of these changes.

The Board of Directors of WWL have since appointed independent reviewers to undertake a review of the circumstances surrounding the error and mitigation strategies to avoid such errors in the future.

Appendix 1: 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 2024-34 LTP and reporting that opinion to you. This responsibility arises from section 94(1) of the Local Government Act 2002.</p> <p>The audit of the LTP does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter dated 28 February 2024 for the audit of the consultation document and LTP 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: <i>Code of Ethics for Assurance Practitioners</i>, issued by the New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit of the Council's consultation document, LTP and all legally required external audits, we have reported on the Council's Debenture Trust Deed assurance engagement. These engagements are compatible with those independence requirements. Other than these engagements, we have no relationship with, or interests in, the Council or any of its subsidiaries.</p>
Fees	<p>The fee for auditing the consultation document and the LTP is \$123,400 (excluding GST and disbursements), as detailed in our Audit Engagement Letter dated 28 February 2024.</p> <p>Our fees for reporting on the external audit and assurance engagement are disclosed in the Council's 2023 annual report.</p> <p>Where appropriate, we will discuss a fee recovery for additional audit work.</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 audit.</p>
Unresolved disagreements	<p>We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the LTP. Management has not sought to influence our views on matters relevant to our audit opinion.</p>



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