

**Report to the Council
on the audit of**

Far North District Council's
2021-2031 long-term plan

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Key messages

This report sets out our findings from our audit of the Council's 2021-31 long-term plan (the plan) and, where appropriate, make recommendations for improvement. It should be read in conjunction with our report from our audit of the Council's consultation document (CD) for its proposed plan, which was issued in final on 19 April 2021.

Overall, we are satisfied that the Council has produced a plan that fulfils its purpose as described in the Local Government Act.

Audit report

We completed our audit of the Council's plan and issued an unmodified opinion on 24 June 2021.

We included three emphasis of matter paragraphs in our audit report to draw the readers' attention to the uncertainties associated with the three waters reforms, the water supply and wastewater assets condition information and the delivery of the capital programme.

Matters identified during the audit

We recommend:

- identifying more options available for significant issues and decisions noted for each activity group in the Infrastructure Strategy;
- for different options identified in the Infrastructure Strategy, determine the associated costs and benefits, and make a clear disclosure of such estimated impact for those options;
- revisit financial forecasts as and when confirmation of funding from Waka Kotahi is confirmed; and
- rates calculations and proposed changes to the rating system are subject to internal quality assurance processes to reduce the risk of error and to ensure compliance with legislation. If the Council wishes to pursue a transitional arrangement for changing its rates basis from capital to land value in the future, it should obtain legal advice before doing so.

Thank you

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



David Walker
Appointed Auditor
9 August 2021

1 Our audit report

1.1 Our opinion was unmodified



We issued an unmodified audit opinion on the long-term plan on 24 June 2021.

This meant we were satisfied that the Council's long-term plan meets the statutory purpose and 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.

We found the underlying information and assumptions used to prepare the plan were reasonable.

We included emphasis of matter paragraphs in our audit report to draw the readers' attention to the uncertainties associated with three water reforms, the water supply and wastewater asset condition information and the uncertainty over the delivery of the capital programme.

1.2 Uncorrected misstatements

The long-term plan is free from material misstatements, including omissions.

During the audit, we discussed with management any misstatements that we found, other than those which were clearly trivial. These were subsequently corrected before finalising the plan.

1.3 Project management, reporting deadlines and audit progress



The development of the CD and plan is a significant and complex project and a comprehensive project plan is required for a successful plan process.

The Council had a detailed project plan which included key milestones, deadlines and the work streams responsible. This contributed to producing quality underlying information documents and enabling the Council to meet all key deadlines.

The Council continues to be receptive to audit recommendations and is focused on continuous improvement. In addition, Council staff were available throughout the audit and provided requested information in a punctual timeframe. Overall, this equated to a smooth audit process with no significant issues.

2 Matters raised during the audit of the plan



In this section we have raised recommendations identified during the audit:

2.1 Three Waters Reforms

The proposed three waters reforms programme considers structural changes to how water supply and wastewater assets are owned and managed (with the potential for stormwater assets to be included).

Cabinet was expected to make decisions on the reform programme in April/May 2021. However, no such announcement was made until after the Council adopted the plan.

Consistent with the CD, there are no significant changes noted in relation to the Council's assumptions made on the three waters reforms. The Council included disclosure on page 16 of the plan document about the Three Waters Reforms and the uncertainty this may create in the future. We have reviewed the three waters reforms assumptions disclosed in the underlying information and assessed the Council's assumptions and disclosure to be reasonable at the time of approving the plan.

Due to its uncertainty, we have continued to conclude that bringing the readers' attention to the three waters reforms by including an emphasis of matter paragraph in our opinion is appropriate.

2.2 Uncertainty over the water supply and wastewater asset condition and performance information

During the CD stage, we reviewed the quality of the asset information used by the Council to inform its renewals required and forecasted in the plan.

Although the Council continues to update its asset information, undertake condition assessments, and monitor asset performance, the asset data used to support its infrastructure replacement and renewal programme was assessed as continuing to improve hand-in-hand with the implementation of Project Darwin.

Nonetheless, there remains a risk that Council may not have correctly identified some of its less critical water supply and wastewater assets and that these may need replacing during the period of the long-term plan.

In the CD and its underlying information, the Council disclosed how it has reduced this risk and also how it proposes to spend more in the future on understanding the state of its assets.

The main areas of uncertainty that arose from the CD stage were:

- The Asset Management Maturity (AMM) review completed by Field Force 4 in April 2020 reflected a point in time assessment using the 2018 Asset Management Plans. This indicated Council were currently at a “core level” in terms of their asset management maturity and there was further work needed to further enhance their asset management practices.
- As at the plan stage, no subsequent reassessment has been completed, to indicate how much progress has been made since this assessment. (As would be expected over the four months between the CD and the plan.)
- The recent Water and Wastewater valuations that were completed in May 2020 indicated that the asset performance and condition information was reliable. We understand this is based on an extrapolation of a sample of data tested by Campbell Consulting.

As at the plan stage, the above information remains the most up-to-date information to be used as the basis of our assessment.

Physical inspection of Council’s water and wastewater assets continues to be performed by Council. To date we have seen that information has been collected for some assets located in the township of Paihia, however, there are still a large number of underground assets to be inspected to reconfirm current data and gather reliable and up to date information.

We have reconsidered these matters and the level of uncertainty around Council’s asset management, specifically around Council’s asset condition and performance information, for water and wastewater network assets, which remained unchanged for the final plan.

We have also reviewed the renewals forecast for water supply and wastewater network assets to determine whether there were any significant changes since the CD stage that should be reconsidered. There were no material changes to the CD stage capital work programme proposed for water supply or wastewater network assets in the final plan.

The Council has made appropriate disclosures around the asset information reliability on page 16 as well as in the Infrastructure Strategy section in the plan document. Additional disclosure on its intention and progress made with Project Darwin has also been disclosed in the Financial strategy section and in the Infrastructure Strategy.

We have concluded it is still appropriate to include an emphasis of matter paragraph in our opinion highlighting to the reader the uncertainty over the water supply and wastewater asset condition and performance information.

2.3 Capital expenditure achievability (do-ability)

We reviewed the reasonableness of the Council’s capital expenditure achievability assumption, first by considering how much of the Council’s capital budget has been delivered over the past three years.

When the Council's actual capital works delivered was compared to the Council's budgeted capital plans it showed that less than 75% of planned works was delivered over the past three years. This initially cast some doubt on Council's ability to deliver on the proposed capital plans that had been forecast in the plan.

During the audit the Council prepared a Capital Achievability statement to be included as part of its underlying information to ensure that it was transparent about the level of uncertainty for this assumption.

Since the CD stage, the nation-wide resource constraints have become more apparent. We have therefore reassessed the Council's assumption around capital plan achievability to ensure it was reasonable and supportable.

We noted the additional work the Council is doing to build capacity, such as:

- Appointment of a Business Analyst/ Project Planner in Project Management Office (PMO)/ Infrastructure Asset Management (IAM) space to work closely with subject matter experts, Finance, managers and leads, to help plan and co-ordinate the initiation of major organisational projects effectively prior to the plan inclusion.
- Appointment of a Project Coordinator in the Capital Delivery Team to manage the administrative tasks, such as document and information distribution, report and communication.
- Continue implementing a project management framework with clear lines of responsibilities and accountability.
- Active engagement with smaller local contractors (many of whom had not previously engaged with Council) to enable them to contest for some of Council's smaller, less complex projects. To date, Council has engaged with approximately 65 contractors in this space to enable them to prepare for a further influx of work aimed at this segment of the contracting market.
- Structural change to an asset condition-based renewals/ Level of Service (LOS) programme opposed to current financial depreciation ("Date based") model. This action is being delivered by implementation of Programme Darwin in the first year of the forecast plan period.
- A number of projects are currently at the delivery stage which also helps support the do-ability of the Council's capital plans in the early years of the CD.
- Increase in dedicated staff to manage the forecast capital expenditure as well as introducing more lead-in time to the programme to allow more realistic time frames for project planning and detailed design and securing necessary consents.

- Levels of third-party funding forecasted has not declined and the majority of the Business-as-Usual projects have been phased between Year 4 and Year 10 (if the project is not already at its capital work phase) so that the Council has time to build up strong planning for the capital project before it is initiated.

The above assessment provided good support for us to conclude that the Council's capital expenditure achievability assumption remains reasonable at Council level for the final plan.

The plan made reference to the above points and Council has acknowledged that the construction market has tightened across the country, and that all councils are competing for constrained engineering and construction resources. The Council intends to maximise local resources available within the Far North by contracting with local suppliers and partners where available.

The Council also continues to support the tiers 2 and 3 local suppliers such as the Far North Builders Ltd and Northwest Builders to become Site Safe accredited so that they can bid for capital work that they would not normally have considered before. This aligns with the Council's focus to increase Far North's resources.

Based on the information that was made available to us during the audit we were able to conclude that the Council's assumption appeared reasonable and supportable and that the disclosures included in the plan were appropriate in supporting how Council plans to achieve its capital plans. Given the uncertainty around this assumption we have included an emphasis of matter paragraph in our opinion highlighting to the reader the uncertainty over the assumption.

2.4 Infrastructure strategy

During the CD stage, we provided detailed feedback to Council for consideration on matters that were not material for the audit of the CD, but more significant to the plan stage.

Key recommendations included:

- Council needing to clearly outline the significant infrastructure issues/challenges that they expect to face and the principal options available for years 11 through 30; and
- significant decisions will need to identify principal options it intends to consider, and the Council's preferred option available rather than a list of projects. A clear disclosure as to whether these decisions will require further consultation should also be made in the strategy.

Council has reviewed the Infrastructure Strategy considering the recommendations reported and agreed that the final Infrastructure Strategy that will form part of the final plan will fully address these recommendations.

In reviewing the final Infrastructure strategy, further improvements were identified for the Council to consider for the next long-term plan round to further enhance the document. This includes:

- identifying more options available for significant issues and decisions noted for each activity group; and
- for different options identified, determine the associated costs and benefits, and make a clear disclosure of such estimated impact for those options.

Management comment

Council notes your comments and will ensure that these points are considered for the next Infrastructure Strategy.

2.5 Funding from Waka Kotahi

In May 2021, Waka Kotahi NZ Transport Agency endorsed the indicative investment levels for continuous programmes as part of developing the 2021-24 National Land Transport Programme.

The Council reviewed their budgets, taking this information into consideration, and identified that there was a funding shortfall of \$12.1 million relating to the Waka Kotahi share of funding for roading projects.

The advice received did not have a detailed allocation attached and was still indicative at the time of adopting the plan. In response to this, Council looked to remove a total of \$17 million from its roading programme to address the identified shortfall in funding. This includes both the Council and Waka Kotahi share of funding.

If the Council decided not to adjust for the shortfall in funding or did not identify an alternative funding source through either debt or reserves, it is likely that the impact would have been material to the forecast financial statements.

We recommend that management revisits the financial forecasts when the Waka Kotahi funding allocation is approved and, if required, update these as part of the annual plan process.

Management comment

Council agrees with your comment and will be reviewing the Waka Kotahi budgets as part of the 2022/23 Annual Plan.

2.6 Ratepayer correspondence

During the Council's long-term plan audit, the Office of the Auditor-General (the Office) received correspondence from a ratepayer asking for the rates calculations and the proposed changes to the rating system, as presented in the Council's LTP CD, to be

reviewed by the Office. The ratepayer also sent an open letter regarding rates setting to the Council directly.

Investigations into the matters raised in the correspondence highlighted errors in the Moerewa rates calculation and in the Hihi wastewater rate calculation. Both errors were corrected by the Council before the plan was adopted.

The Office also found that the CD's presentation of the proposed rates basis transition from land value (LV) to capital value (CV) phased over the 10-year period (that is, 90% LV/10% CV in year 1 through to 100% CV in year 10) was not in line with legislation as it appeared to apply to the general rate. This is because the basis for a general rate must either be 100% LV or 100% CV (it cannot be a mixture of the two). As the Council decided not to proceed with this option, there is no impact on the plan. However, we wanted to bring this to your attention, should the Council wish to reconsider this option in the future.

We recommend that rates calculations and proposed changes to the rating system are subject to internal quality assurance processes to reduce the risk of error and to ensure compliance with legislation. If the Council wishes to pursue a transitional arrangement for changing its rates basis from capital to land value in the future, it should obtain legal advice before doing so.

Management comment

Council does not agree with your comment in relation to the proposed rate transition from LV to CV. Council proposed a "general rate" that was based 100% on land value. Council then proposed a "targeted differential" based on CV and that moved a proportion of the rates requirement from LV to CV over a 10-year period. The methodology followed did not create a composite rate as that is not legal under the Local Government (Rating) Act 2002. The Consultation document showed the rate "examples" with a header indicating 90% LV/10% CV as that was the only way to incorporate the transition into the table. It did not mean that the General Rate was based on anything other than 100% of the underlying values. It is Council's view that the comments above are incorrect.

If Council wishes to consider transition to CV again in the future, legal advice will be sought.

Audit New Zealand comment

Management's comment is noted. It is also the clarity of disclosure in the CD that should also be considered when assessing overall legality, and should form part of the legal advice sought if Council again considers moving from LV to CV.

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 plan and reporting that opinion to you. This responsibility arises from section 94 of the Local Government Act 2002.</p> <p>The audit of the plan does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter dated 9 November 2020 contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General’s Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your plan. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</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>Other than our work in carrying out all legally required external audits and the debenture trust deed assurance engagement, which is compatible with those independence requirements, we have no relationship with or interests in the Council or its subsidiaries.</p>
Fees	<p>The audit fee, covering both the CD and the plan for the period is \$121,800 (excluding GST and disbursements), as detailed in our audit engagement letter dated 9 November 2020. \$5,000 additional cost recovery fees were agreed to offset the Waka Kotahi NZ Transport Agency changes.</p> <p>Other fees will be charged in the period for the annual report audit and debenture trust deed assurance engagement.</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 commencement of the planning of the long-term plan.</p>

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