



## Ōtorohanga District Council

Planning report to the Risk and Assurance Committee  
for the year ending 30 June 2025

### **Purpose of report**

*This report has been prepared for Ōtorohanga District Councils Risk and Assurance Committee (the "Committee") and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business dated 7 May 2025 and as required by New Zealand auditing standards.*

*This plan is intended for the Committee and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.*

*This report includes only those matters that have come to our attention as a result of performing our audit procedures to date and which we believe are appropriate to communicate to the Committee. The ultimate responsibility for the preparation of the financial statements rests with the Councillors.*

### **Responsibility statement**

*We are responsible for conducting an audit of Ōtorohanga District Council (the 'Council') for the year ended 30 June 2025 in accordance with New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board.*

*Our audit is performed pursuant to the requirements of the Local Government Act 2002, Public Audit Act 2001 and the Financial Reporting Act 2013, with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Councillors. The audit of the financial statements does not relieve management or the Councillors of their responsibilities.*

*Our audit is not designed to provide assurance as to the overall effectiveness of the Council's controls but we will provide you with any recommendations on controls that we may identify during the course of our audit work.*



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# Planning report



# Introduction

Dear Risk and Assurance Committee

We are pleased to provide you with our planning report for the audit of Ōtorohanga District Council (the 'Council') for the year ending 30 June 2025. We understand our responsibility to you, and we have developed a tailored audit plan that summarises the key aspects of our audit scope and approach, our planned communications with you, and our team structure.

This report is designed to outline our respective responsibilities in relation to the audit, to present our audit plan and to facilitate a two-way discussion on the plan presented. This plan is therefore intended for the Committee and should not be distributed further.

We appreciate the opportunity to serve the Council. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.

A handwritten signature in blue ink that reads "B. Dente".

**Bruno Dente, Partner**  
**for Deloitte Limited**  
Hamilton | 8 May 2025



# Areas of audit focus

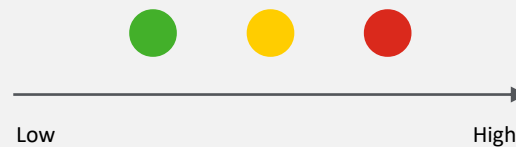
## Dashboard

Area of audit focus	Significant risk	Fraud risk	Control testing planned	Level of management judgement
Valuation of infrastructure assets	✓	✗	D	●
Management's override of controls	✓	✓	D	●
Revenue recognition	✗	✗	D	●
Statement of Service Performance	✗	✗	D	●
ESG and climate change	✗	✗	N/A	●
Matters raised by the Office of the Auditor General	✗	✗	N/A	●

### Control testing planned

D: Evaluate whether control design manages risk appropriately

### Level of management judgement required





# Areas of audit focus

## Area of audit focus

## Our approach

### Valuation of infrastructure assets

The Council has a significant asset base with infrastructural assets carried at fair value. Each asset class is revalued on a regular basis, generally on at least a three yearly basis. In years when an asset class is not revalued, a fair value assessment needs to be performed, to ensure that carrying value of these assets still approximate fair value.

The following are the asset classes carried at fair value and the year they were last revalued:

Land and Buildings – operational and restricted – 30 June 2024

Three waters infrastructure – 30 June 2023

Roading, bridges and culverts – 30 June 2023

In the current year, management has opted to revalue roading, bridges and culverts assets. Based on when the above asset classes were last revalued, none are required to be revalued in the current year. The valuation of assets can be a complicated process and Management and Council need to ensure that a robust review of the valuation process is performed irrespective of the valuation being performed by an independent expert.

For the other asset classes, management are required to perform an assessment to determine whether the carrying value of these assets still approximate fair value as at 30 June 2025. The assessment to determine whether the carrying value of these assets still approximate fair value, requires a degree of judgement and consideration of different assumptions. Input into these assumptions may come from in-house or independent experts. Where there are indicators that the carrying value is materially different to the fair value a revaluation is required to be undertaken.

The fair value assessment of infrastructure assets is an area that continues to receive increased focus in the sector. This is especially critical for the current year with the current market conditions and high inflation rates which may cause material movements in valuations, and it is possible that classes of assets that are not due to be revalued, would be required to be revalued.

For infrastructural assets carried at fair value but not revalued in the current year, we plan to:

- Obtain management's assessment of the indicative movement in fair value for all assets classes carried at fair value;
- Obtain supporting documentation from independent valuers supporting the indicative fair value movement (if applicable); and
- Review the key assumptions applied in determining the indicative fair value, assess and challenge management's overall conclusions.

For infrastructure assets carried at fair value and revalued in the current year, we plan to:

- Obtain the revaluation of infrastructure class(es);
- Obtain representation directly from the independent valuer confirming their methodology;
- Review the key underlying assumptions used to ensure these assumptions are reasonable and in line with Public Benefit Entity International Public Sector Accounting Standards ("PBE IPSAS"); and
- Ensure the revaluation transaction is correctly accounted for and disclosed in the financial statements in order to comply with PBE IPSAS.



# Areas of audit focus

Area of audit focus	Our approach
<p><b>Management override of controls</b></p> <p>ISA (NZ) 240 The auditor’s responsibility to consider fraud in an audit of financial statements requires us to presume there are risks of fraud in management’s ability to override controls.</p> <p>We are required to design and perform audit procedures to respond to the risk of management’s override of controls.</p> <p>Management’s override of controls is identified as a fraud risk because it represents those controls in which manipulation of the financial results could occur.</p> <p>It has a potential impact to the wider financial statements and is therefore a significant risk for our audit.</p>	<p>We plan to:</p> <ul style="list-style-type: none"><li>• Understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements.</li><li>• Test the appropriateness of a sample of journal entries and adjustments and make enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments.</li><li>• Review accounting estimates for biases that could result in material misstatement due to fraud, including assessing whether the judgements and decisions made, even if individually reasonable, indicate a possible bias on the part of management.</li><li>• Perform a retrospective review of management’s judgements and assumptions relating to significant estimates reflected in last year’s financial statements.</li><li>• Obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Council and its environment.</li></ul>





# Areas of audit focus

Area of audit focus	Our approach
<p><b>Revenue recognition</b></p> <p>ISA (NZ) 240 The auditor’s responsibility to consider fraud in an audit of financial statements requires us to presume there are risks of fraud in revenue recognition and therefore this is a focus area for the audit.</p> <p>The Council has various revenue streams which need to be considered separately to ensure they are in-line with PBE Standards.</p> <p>Failure to comply with rating law and the associated consultation requirements can create risks for rates revenue. Compliance with the detail of the Local Government (Rating) Act 2002 (LGRA) is vital; if the rate is not within the range of options and restrictions provided for in that Act, it may not be valid.</p> <p>Management and Council need to ensure that the requirements of the LGRA are all adhered to and that there is consistency between the rates resolution, the funding Impact Statement for that year, and the Revenue and Financing Policy in the respective Long Term Plan (LTP) or Annual Plan (AP).</p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition often results from an overstatement of revenues through, for example, premature revenue recognition or recording fictitious revenues. It may also result from an understatement of revenues through, for example, improperly shifting revenues to a later period. Through our understanding of the Council with the processes in place and level of risk assessed we have rebutted the significant risk of fraud associated with revenue recognition.</p>	<p>We will perform the following audit procedures to ensure that revenue recognition is appropriate:</p> <ul style="list-style-type: none"><li>• Understand, evaluate and assess the relevant controls that address the risks of revenue recognition;</li><li>• Assess the quality of information produced from the IT system and ensure accuracy and completeness of reports that are used to recognise revenue;</li><li>• Complete a ‘rates questionnaire’ compiled by the OAG*, to confirm whether rates have been correctly set; and</li><li>• Review the meeting minutes recording the adoption of the rates resolution, to ensure the rates are in accordance with the Revenue and Financing Policy as well as reviewing any other information available with regards to rates;</li><li>• Complete analytical procedures by developing expectations based on our knowledge of the sector and key performance measures; and</li><li>• Assess the impact of any changes to revenue recognition policies.</li></ul> <p>*Please note that the completion of the ‘rates questionnaire’ is not a legal exercise but aims to provide us with some indication of the rates setting processes being used by the Council. We remind Council that the overall responsibility for the compliance of rates rests with the Councillors.</p>



# Areas of audit focus

Area of audit focus	Our approach
<p><b>Statement of Service Performance</b></p> <p>The Council’s Annual Report is required to include an audited Statement of Service Performance (SSP) which reports against the performance framework included in the annual plan/long-term plan. This is line with the requirements of <i>PBE FRS 48 Service Performance Reporting</i>.</p> <p>The SSP is an important part of Council’s annual performance reporting, and it is important it adequately “tells the performance story” for each group of activities.</p> <p>Our audit opinion considers whether the service performance information:</p> <ul style="list-style-type: none"><li>• Is based on appropriately identified elements (outcomes, impacts, outputs), performance measures, targets/results; and</li><li>• Fairly reflects actual service performance for the year (i.e. not just reports against forecast).</li></ul>	<p>We plan to:</p> <ul style="list-style-type: none"><li>• Review Council’s SSP against legislative requirements and good practice. This will include checking consistency with the performance framework included in the 2024-2034 LTP;</li><li>• Audit a sample of the reported performance measures, with a focus on the more significant groups of activities;</li><li>• Review the narrative commentary and explanatory information provided in the annual report to ensure that this provides sufficient information to the readers i.e. “tells the performance story”.</li></ul>
<p><b>ESG and Climate Change</b></p> <p>Matters related to climate and the broader Environment, Social and Governance (ESG) landscape are rapidly evolving. Stakeholders are increasingly asking entities to provide transparent disclosures about climate-related risks, and the New Zealand Government is taking action to reduce our emissions profile which over time will impact most entities.</p> <p>ESG and climate related matters will likely create physical and transitional risks and opportunities for the Council and these matters could lead to potential impacts on the financial statements.</p>	<p>As part of the audit process, we will consider ESG and climate-related risks and their potential impact on the Council’s financial statements. We will consider the councils consideration of ESG and climate risks and tailor our audit approach as required.</p>



# Areas of audit focus

Area of audit focus	Our approach
<b>Effectiveness, efficiency, waste and probity</b>  Good practice involves the establishment of policies and controls to ensure that expenses have a justifiable business purpose; preserve impartiality; have been made with integrity; are moderate and conservative; have regard to the circumstances; have been made transparently; and are appropriate in all respects.	We are required to remain alert for issues of effectiveness and efficiency, waste, and a lack of probity or financial prudence throughout the audit. We also plan to: <ul style="list-style-type: none"><li>• Assess policies and procedures in place for expenses and procurement processes, and</li><li>• Test a sample of expenses for appropriateness against good practice and other guidance issued as relevant for the Council. Our tests will focus primarily on sensitive expenditure such as key management personnel and Councillors pay, travel and expenses; large contract tenders; related party transactions.</li></ul>
<b>Government reviews and proposals</b>  There continues to be change in the sector with newly introduced or changes to regulatory requirements (new and updated national policy statements) in place or proposed (most notably the Local Water Done Well reform), and other areas being considered by the Government. This constant change makes it challenging for councils to plan ahead, particularly because of uncertainties of regulatory settings and the significant cost implications of these changes.	As part of our audit process we will: <ul style="list-style-type: none"><li>• Continue to follow up and discuss with management on the impact of these initiatives to the Council, where necessary, will consider them within our audit approach; and</li><li>• Maintain close communication with the Office of the Auditor-General, if there are any other areas that requires further consideration.</li></ul>
<b>Local Water Done Well reform</b>  The Local Water Done Well reform is being implemented in three stages; <ul style="list-style-type: none"><li>• Stage 1 – the affordable water reforms were repealed in February 2024.</li><li>• Stage 2 – the Local Government Water Services Preliminary Arrangements Act 2024 (the Preliminary Arrangements Act) was passed in September 2024.</li><li>• Stage 3 – the introduction of the Local Government Water Services Bill to establish the enduring settings for the new water services system. The Bill had had its first reading on 17 December 2024 and was referred to the Finance and Expenditure Select Committee for consideration. A report is due from Select Committee on 17 June 2025.</li></ul>	



# Technical update



# Developments in financial reporting

## Public benefit entities

The following table provides a high-level summary of the major new accounting standards, interpretations and amendments that are relevant to the Council. A full list of the standards on issue but not yet effective is released quarterly and is available here: [https://www2.deloitte.com/nz/en/pages/audit/articles/accounting-alert.html?icid=top\\_accounting-alert](https://www2.deloitte.com/nz/en/pages/audit/articles/accounting-alert.html?icid=top_accounting-alert)

Major new standard, interpretation or amendment	Effective date (periods beginning on or after)
Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1)	1 January 2024

### Early implementation efforts recommended

Early effort to consider the implementation of these standards is recommended in order to provide stakeholders with timely and decision-useful information. Implementation steps are outlined opposite.

#### Steps for implementation

Determine extent of impact & develop implementation plan

Monitor progress and take action where milestones are not met

Identify required changes to systems, processes, and internal controls

Determine the impact on covenants & regulatory capital requirements, tax, dividends & employee incentive schemes

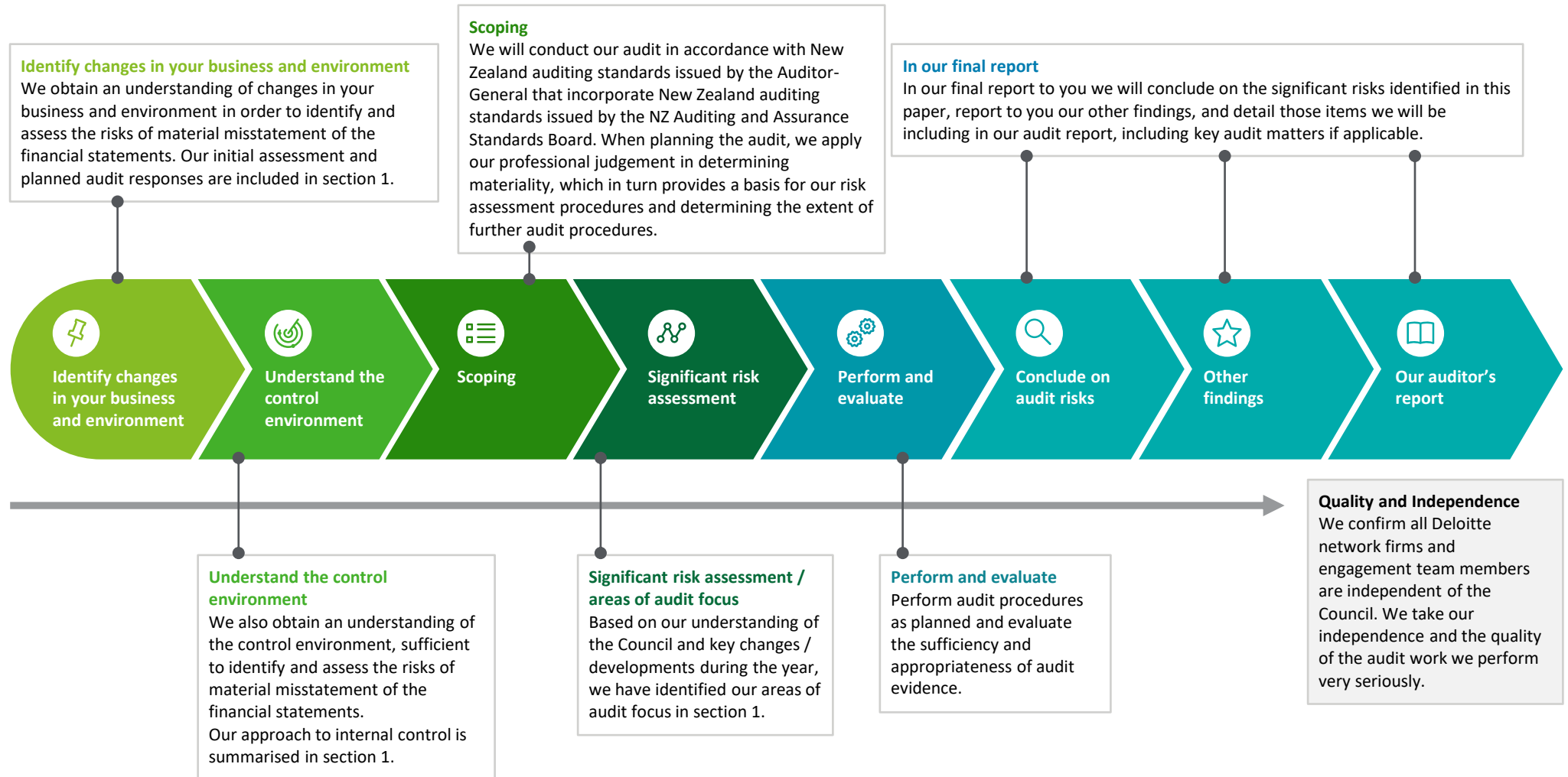


# Appendices



# Our audit explained

We tailor our audit to your business and your strategy





# Materiality

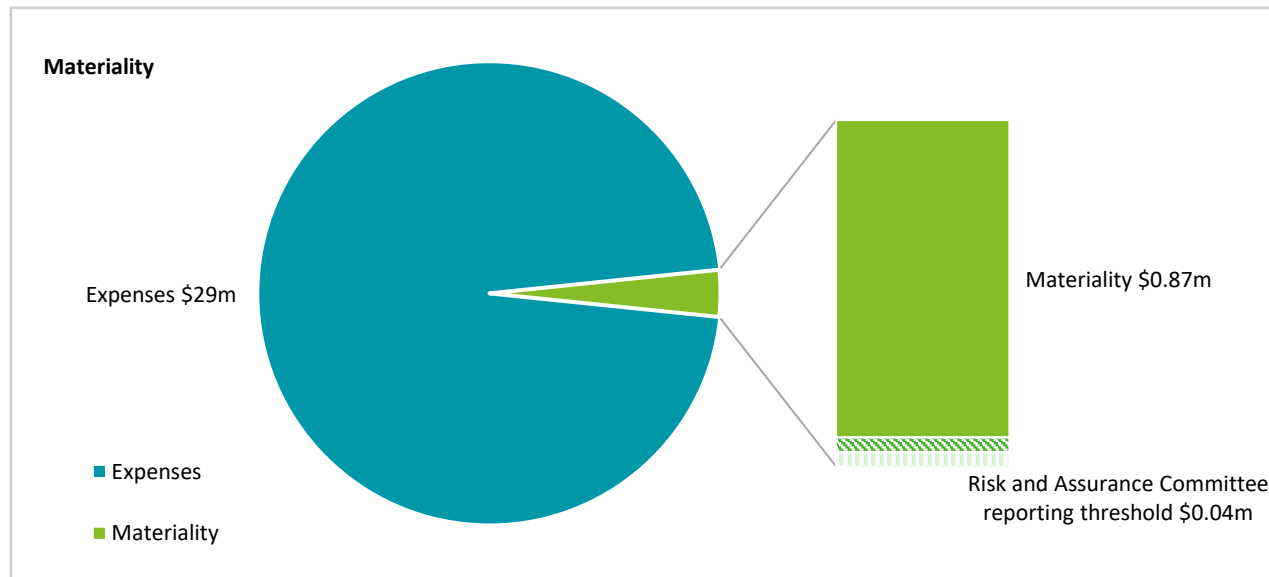
## Our approach to materiality

### Establishing an appropriate materiality level

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Our quantitative materiality for the 2025 audit will be based on expected expenditure in line with prior periods as this is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements.

The extent of our procedures is not based on materiality alone but also on local considerations of the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.



Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.





# Other compliance matters

There are a range of matters we are required to report to you as part of our communications to management and the Committee.

## Related Party Transaction Disclosures

- The Council is required to Identify, account and disclose related party relationships and transactions in accordance with the applicable financial reporting framework.
- We will perform procedures to obtain an understanding of the controls, if any, that the Council has established around identifying, accounting for, and disclosing related party relationships and transactions in accordance with the applicable financial reporting framework; as well as the authorisations and approvals process for significant transactions and arrangements with related parties or those outside the normal course of business.
- We will also identify and assess the risks of material misstatement associated with related party relationships and transactions, including determining whether any of those risks are fraud or significant risks, and design and perform further audit procedures to obtain sufficient appropriate audit evidence.

## Compliance with Laws and Regulations

- The Council is also required to ensure that its operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the financial statements.
- We are required to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to understand its nature, and evaluate the effect on the financial statements.

## Fraud Characteristics

- In relation to fraud, the primary responsibility for the prevention and detection of fraud rests with management and the Councilors, including establishing and maintaining internal controls over the reliability of financial reporting.
- We will obtain an understanding of how the Committee exercise oversight of the Council's processes for identifying and responding to the risks of fraud and the internal controls that have been established to mitigate these risks, as well as making enquiries of management and the Committee to determine whether you have knowledge of any actual, suspected or alleged fraud affecting the Council.

### Written Representations

We will request a number of written representations in a representation letter, relating to each of these areas, including that appropriate disclosure of all matters has been made to the auditor.



## Independence and fees (cont.)

### Fees

The proposed audit fee for the 2025 financial year has been reviewed by the Office of the Auditor General. The Office of the Auditor General is responsible for monitoring audit fees to ensure that fees are based on realistic hours (that is, hours that reflect the nature and extent of work required), an appropriate audit team mix, and charge-out rates that are in line with market rates. The only change to fees in the current year is an inflationary movement.

	CY (\$'000)	PY (\$'000)
Fees payable for the audit of the Council financial statements	216	208
Estimated Disbursements including technology charge	9	7
<b>Total audit fees for the financial statements</b>	<b>225</b>	<b>215</b>
Other assurance services		
- Long Term Plan	0	103
- Trustee Reporting	9	9
<b>Total other assurance services</b>	<b>9</b>	<b>112</b>
<b>Total audit related and other assurance fees</b>	<b>234</b>	<b>327</b>



# Prior year unadjusted differences

## Financial differences

We take this opportunity to remind you of the unadjusted differences identified in the prior year. Unadjusted differences in the prior year reduced profit before tax by \$277k and reduced net assets by \$277k. The current year effect of these is summarised below.

	Credit/ (Charge) to the income statement \$'m	Increase/ (Decrease) in net assets \$'m	Increase/ (Decrease) in retained earnings \$'m
<b>Judgemental misstatements</b>			
Outstanding debtors not receivable	(277)		277
<b>Total</b>	<b>(277)</b>	<b>-</b>	<b>277</b>

We obtained written representations from Council confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments were required.

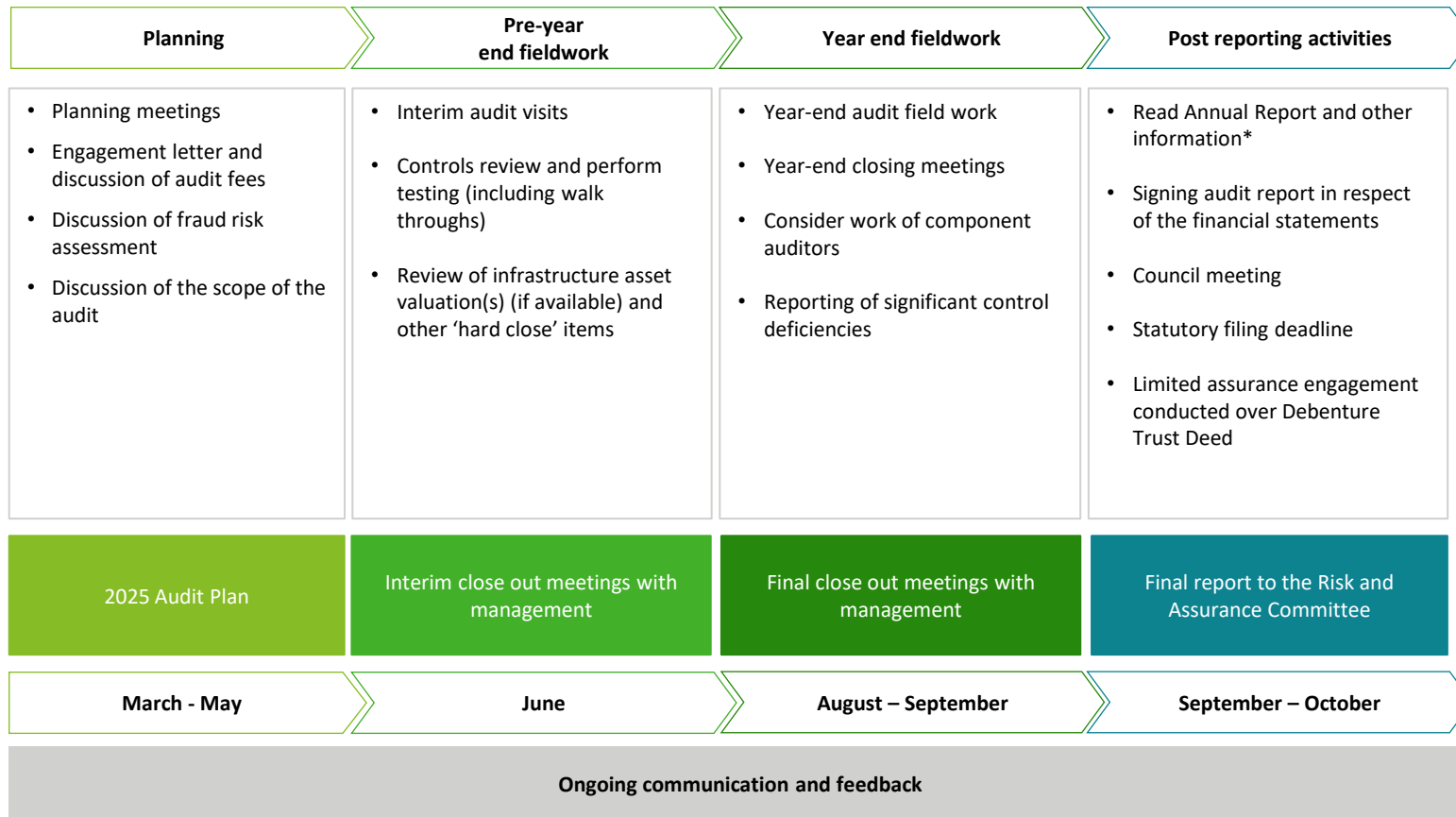
Note: Immaterial balance sheet and income statement reclassifications have not been included in the summary of unadjusted differences



# Continuous communication and reporting

## Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously, and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



In addition to the formal communication plan above, we anticipate ongoing dialogue with the Chair of the Risk and Assurance Committee outside of the audit window, to discuss significant audit matters on an ongoing basis and not just at the time of the audit.

\* We are required to read the other information to consider if there are any material inconsistencies which we are obliged to report on. We will need sufficient time to perform the review.



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