

Report to the Assurance, Risk and Finance Committee

on the audit of
South Wairarapa District Council

For the year ended 30 June 2025

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Our audit report

We intend issuing an unmodified audit opinion

We intend issuing an unmodified audit opinion on 8 October 2025.

We are satisfied that the financial statements, statements of service provision, the statement comparing actual capital expenditure to budgeted capital expenditure for each group of activities, and funding impact statements present fairly South Wairarapa District Council's (the District Council's) activities for the year and its financial position at the end of the year.

Without modifying our audit opinion, we intend to include an emphasis of matter paragraph to draw the users' attention to the disclosure in *Note 26 Events after balance date – water services reform* which outlines the inherent uncertainties with the District Council's responses to the Government's Local Water Done Well reforms.

Finalisation of the audit report is subject to:

- receiving signed financial statements and representation letter;
- completing final director and manager review; and
- completing our review of the final version of the Annual Report once received.

This report sets out all matters that we consider require your attention before approving the Annual Report. In addition to this report, we also intend to provide a more detailed report to management. This will include

recommendations on areas for improvement we identified during the audit.

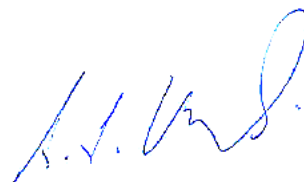
Corrected and uncorrected misstatements

We have discussed any misstatements that we found with management, other than those which were clearly trivial.

We also identified misstatements that were corrected by management. A list of corrected misstatements is available on request.

Thank you

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



Sefton Vuli
Appointed Auditor
8 October 2025

Contents

This report, for audit finalisation purposes, provides an update on:

- Focus areas from the Audit Plan.
- Other matters identified during the audit.
- Financial statements and service performance information.
- Appendix 1 —Other disclosures.

Focus areas from the Audit Plan

Focus area	Outcome
<p>Performance measure: The average quality of ride on the sealed local road network, measured by smooth travel exposure</p> <p>The 2024 audit report was qualified as we were unable to obtain assurance over the accuracy of estimated traffic volumes used in the calculation of this performance measure. We focused on this performance measure due to limitation of scope faced in the prior year and their potential to recur in FY25.</p>	<p>The District Council engaged Fulton Hogan to conduct traffic counts in FY25. We were able to obtain assurance over the accuracy of estimated traffic volumes used in the calculation of this performance measure, so that the FY25 audit report is not qualified.</p> <p>Reference to the prior year qualification was also removed as there is evidence (with the benefit of hindsight) that the 2024 result was materially correct and in line with surrounding years.</p>
<p>Valuation of infrastructure assets (non-revaluation year)</p> <p>In a non-revaluation year, the District Council needs to perform a fair value movement assessment to determine whether there could be a material difference between the fair value and the carrying value.</p> <p>If the fair value movement of the assets, individually or in combination with other asset classes, is likely to be material, the District Council will need to complete a full revaluation.</p>	<p>We reviewed the reasonableness of the District Council's fair value assessment including, the appropriateness of the assumptions used.</p> <p>Based on the work performed, we are assessed the carrying value of the infrastructural assets reflect their fair value as at 30 June 2025.</p>
<p>Valuation of land and buildings</p> <p>The Council revalue land and building assets every two years. The last revaluation was performed in 2022/23. There is a risk that the valuation included in the financial statements does not appropriately reflect the fair value of these assets.</p>	<p>We have completed our testing of the valuation and engaged with the valuer. We are satisfied that the financial statements appropriately reflect fair value of land and buildings.</p>

Focus area	Outcome
Outsourcing of payroll to external provider	
In April 2025, the Council outsourced its payroll function to an external provider. There is a risk that the outsourcing of the payroll function would have an impact on our audit of the District Council's payroll function.	Our tests are conducted solely for the purposes of providing assurance in terms of our opinion over the financial statements. There were no issues or reporting matters arising from our test of the District Council's payroll function.
Service Performance Reporting – NZ AS 1 (Revised): <i>The Audit of Service Performance Information</i>	
<p>Auditors are required to carry out our audit of service performance information prepared by Councils in accordance with NZ AS 1 (Revised): <i>The Audit of Service Performance Information</i>. This standard will be applied for the first time for the Council's 2024/25 audit and is closely related to the accounting standard for service performance reporting (PBE FRS 48). The standard will have implications for both the auditor and the District Council, as the preparer of service performance information.</p> <p>The changes require a shift towards clearer and more meaningful language aimed at enhancing the quality and reliability of service performance reporting.</p>	We conducted our audit in line with the requirements of NZ AS 1 (Revised) and provided feedback to the District Council from the audit procedures performed. Those findings have been incorporated into the service performance reporting as appropriate.
Accounting for impairment, capitalisation of costs and recognition of completed assets	
<p>Impairment</p> <p>Assets are required to be assessed for indicators of impairment at each reporting date (these include material asset classes of furniture and fittings, and library books). In addition, work in progress (WIP) values on projects that span an extended period of time should be assessed regularly for impairment over the period of the project.</p>	<p>We:</p> <ul style="list-style-type: none"> assessed the processes used by management to assess for impairment, including all significant WIP balances and review the analysis of WIP aging as appropriate; updated our understanding of the Council policy and processes to

Focus area	Outcome
<p>Capitalisation of costs</p> <p>The Council should ensure appropriate policies and processes are in place to identify and capitalise costs that are capital in nature. This includes both direct and indirect capital costs.</p> <p>Completed projects</p> <p>The Council also needs to ensure that, as phases of a project are completed, and assets become operational, capitalisation of the WIP balance is performed in a timely manner. This will ensure that depreciation on these assets starts when the asset is complete and ready for use.</p> <p>The Council should analyse the aging of WIP balances by year and consider whether any old balances should be written off or impaired.</p>	<p>identify and capitalise both direct and indirect capital costs; and</p> <ul style="list-style-type: none"> reviewed management's processes to ensure that the capitalisation of WIP costs is performed in a timely manner. <p>There are no matters arising or findings to report.</p>
Accounting for revenue	
<p>The Council has significant other (non-rates) revenue / revenue streams such as Government grants and non-governmental grants.</p> <p>The risk is that the recognition of these non-rates revenue streams does not comply with the relevant accounting standard (PBE IPSAS 23 Revenue from non-exchange transactions and PBE IPSAS 9 Revenue from exchange transactions).</p>	<p>Our audit procedures indicate that the recognition of significant (non-rates) revenue streams comply with the relevant accounting standards.</p>
Central Government-led reforms and other changes	
<p>There have also been a number of Central Government-led reforms which have an impact for the Council. Change will be ongoing, with further Central Government-led reforms including with the Council consulting on the proposed future water model.</p> <p>To deliver on the Council's strategic priorities, respond to financial</p>	<p>The Annual Report includes appropriate disclosure in <i>Note 26 Events after balance date – water services reform</i>.</p> <p>Without modifying our audit opinion, we intend to include an emphasis of matter paragraph to draw the users' attention to the disclosure in Note 26 which outlines the inherent uncertainties with the District Council's</p>

Focus area	Outcome
<p>pressures, and elected member direction to reduce the rates burden on the community, changes have been made.</p> <p>Changes and uncertainty have an impact for the financial statements and performance information. The Council will need to consider the impacts and what it means for its financial statements and performance information when it is preparing its Annual Report.</p>	<p>responses to the Government's Local Water Done Well reforms.</p>
<p>The risk of management override of internal controls</p>	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</p>	<p>We completed testing to address this risk and did not identify any matters that we need to bring to your attention.</p>

Other matters identified during the audit



Matters identified	Outcome
Reclassification of Investment Property as Property, Plant and Equipment	
<p>Up until 30 June 2024 the District Council classified 13 separate property assets as investment property on the basis that those properties were held under operating leases by third parties.</p> <p>The District Council revisited the classification in FY25 and is now of the view that these assets should have been historically classified as property, plant and equipment (PPE) under PBE IPSAS 17 Property, Plant and Equipment.</p> <p>The rationale provided is that these properties are held primarily for strategic and community purposes, with rental income incidental to their primary purpose on acquisition. The District Council believes this reclassification better reflects the strategic intent of the District Council.</p> <p>As a result, of this reclassification, a prior year adjustment has been made to the financial statements. Assets with a carrying value of \$14.7m as at 30 June 2024 were reclassified from investment property to PPE. Comparative figures for the 2023/24 financial year have been restated accordingly to reflect this change. Full disclosure is included under Note 15.</p>	<p>We reviewed the District Council's assessment to reclassify investment property as property plant and equipment and confirm that both the basis for reclassification, and accounting treatment, comply with the accounting standards. Appropriate disclosure of the restatement is included in <i>Note 15 Investment properties</i> and financial statements as required.</p>
Not reporting against a DIA mandatory measure	
<p>The District Council did not report an actual result against a DIA mandatory measure for roading in it's the performance reporting. The performance measure "the % of customer services requests relating to roads and footpaths responded to within 48 hours" reported "N/A" against it for the 2024/25 result, and "no longer reported" for the change to prior year. The</p>	<p>Not reporting a result against a DIA mandatory measure is a breach of the Non-Financial Performance Measures rule 2024 which sets out mandatory measures to be reported against. Any non-compliance is a breach of legislation.</p> <p>While we assessed that there is no audit opinion related impact with this</p>

Matters identified	Outcome
<p>accompanying commentary provides an explanation for non-measurement during the year.</p>	<p>breach, this was due to the relative materiality of the measure. The outcome of such a breach against a more significant measure may have an audit opinion related impact. We therefore strongly recommend that this matter be urgently addressed.</p>

Financial statements and service performance information

Judgements made in significant accounting estimates

Judgement areas	Misstated 	Cautious 	Balanced 	Optimistic 	Misstated
Land and Building valuation (\$97.5m)					
Infrastructure valuation (\$512m)					

These are our views on the level of prudence in key judgements in this year’s financial statements, relating to accounting estimates.

Commentary

The subjective elements in the financial statements are generally balanced and align with expectations. Minor variations are within the bounds of reasonable professional judgement.

Quality and timeliness of information provided for audit

The Council's responsibilities include understanding whether management produce quality information, and whether there are

adequate resources, skills, and expertise applied in the reporting process. Our expectations were informed by the FMA's *Audit Quality Monitoring Report* (expectations for directors) and *Guidance and expectations for keeping proper accounting records*.

Expectation	Grading	Reason
Financial statements prepared by management comply with accounting standards	🟢 Good	
Quality supporting financial information is prepared and available on a timely basis	🟢 Good	
Accounting records and supporting documentation reconcile to the financial statements	🟢 Good	
Accounting records support the accounting treatment applied by management	🟢 Good	
Management prepares accounting papers for unusual or more complex transactions and estimates	🟢 Good	
Governors challenge the process and the outcomes of management's judgements	🟢 Good	
Service performance reporting prepared by management complies with accounting standards	🔴 Attention	A DIA mandatory measure was not reported against representing a breach of performance reporting legislation.
Quality supporting service performance information is prepared and available on a timely basis	🟢 Good	
Reported service performance agrees to supporting records	🟢 Good	

Expectation	Grading	Reason
Issues raised in our previous reports are addressed in a timely manner	🟢 Good	

Grading	Explanation
🟢 Good	The quality and timeliness of the information was of a good standard with no significant deficiencies.
🟡 Acceptable	Quality and timeliness were of an acceptable standard but with some minor deficiencies and room for improvement.
🔴 Attention	There were numerous and/or significant deficiencies and/or delivery was significantly late.

Appendix 1

Disclosures



Our responsibilities in conducting the audit

We carried out this audit on behalf of the Controller and Auditor General. We are responsible for expressing an independent opinion on the financial statements and performance information. This responsibility arises from section 15 of the Public Audit Act 2001.

The audit of the financial statements does not relieve management or the Council of their responsibilities. Our audit engagement letter contains a detailed explanation of the responsibilities of the auditor and the Council.

Auditing standards

We carry out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity, or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining a system of internal control for detecting these matters.

Auditor independence

We confirm that, for the audit of the South Wairarapa District Council's financial statements for the year ended 30 June 2025, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit and our report on the disclosure requirements, we have audited the District Council's 2025-2034 Long-term plan. We also performed a limited assurance engagement related to the District Council debenture trust deed. These engagements are compatible with those independence requirements.

Fees

The audit fee for the year is \$167,592, as detailed in our Audit Proposal Letter. Other fees charged in the period are \$5,500, for the limited assurance engagement related to the District Council's debenture trust deed, and \$82,110 for the audit of the District Councils 2025-34 LTP.

Other relationships

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 District Council that is significant to the audit.

We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the South Wairarapa District Council during or since the end of the financial year.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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