



Results of the 2021/22 council audits

This article sets out information about the results of the 2021/22 audits of councils. We will produce our full report about councils and the wider local government sector in 2024. That report will include detailed analysis for both the 2021/22 and 2022/23 financial years.

What we do

Every year, our auditors issue an independent opinion on each council's financial statements and performance information (statements of service performance).

This information is an important part of the council's annual report and its accountability to its community.

The audit opinion tells the community how much they can rely on the audited information in the council's annual report (including whether the council's reported performance in the annual report fairly reflects its performance for the year).

The opinion can also highlight specific matters that, in the auditor's view, are important to the community's understanding of the audited information.

Key issues from the 2021/22 council audits

- There were issues with how seven councils presented or carried out their asset revaluations. This is important because councils own assets worth a lot of money.
- Auditors had issues with how 17 councils reported to their communities about their service performance.
- Thirty-five councils missed their statutory deadline for having the audit completed.
- Most council audits were affected by the uncertainty arising from the water services reform programme.



The audit reports we issued

We issued audit reports for 78 councils' financial statements and performance information for the financial year ended 30 June 2022.

An audit report will be either standard or non-standard.¹ A non-standard audit report is one that contains:

- a qualified audit opinion; and/or
- an “emphasis of matter” paragraph;

If a material aspect of a council's financial statements or performance information does not comply with accounting standards or the organisation cannot provide us with the evidence needed to support that information, we issue a qualified audit opinion.

We issued 21 qualified audit opinions on councils' financial statements and performance information for 2021/22.²

An auditor might also include an emphasis of matter paragraph in the audit report. An emphasis of matter paragraph does not mean that the auditor has found anything wrong. Instead, the auditor wants to draw attention to a matter or matters presented or disclosed that are of such importance that they are fundamental to readers' understanding of the audited information.

An audit report can contain more than one qualification and it can contain more than one emphasis of matter paragraph. An audit report can also contain a qualification and an emphasis of matter paragraph.

The table below summarises the audit reports we issued to councils for 2021/22.

Standard audit report	8
Unmodified audit opinion that included one or more emphasis of matter paragraphs	49
Qualified audit opinions	21
Total audit reports issued	78

We identified a number of themes in the audit reports we issued. We have summarised those below.

¹ For a plain language explanation of audit opinions, see “[The Kiwi guide to audit reports](#)” blog post at oag.parliament.nz.

² Of the 21 councils that received qualified audit opinions, five councils had more than one modification.

Audits and the statement of service performance information

The statement of service performance contains important information about the services a council has provided and what the council has achieved. The performance information that a council reports should tell a coherent story about the services it delivers, why it delivers them, the standards it is looking to meet in delivering those services, and what difference it intends to make for the community it delivers services to.

An effective statement of service performance allows the community to understand and assess the performance of a council.

Good quality reporting of both service performance and financial information allows a reader to better consider what has been implemented and what could be improved further.

Of the 21 councils that received qualified audit opinions, 17 received qualifications on their statement of service performance. The following sections provide details of the issues we found.

Performance measures about three waters

The Secretary for Local Government has set rules for how councils report on their performance in providing water services (drinking water, wastewater, and stormwater).

The mandatory performance measures include the total number of complaints (for every 1000 properties connected) received about:

- drinking water clarity, taste, odour, pressure or flow, continuity of supply, and the council's response to any of these issues;
- sewage odour, sewerage system faults and blockages, and the council's response to issues with the sewerage system; and
- the performance of the stormwater system.

The Department of Internal Affairs has issued guidance to help councils apply the Rules. It includes guidance on how to count complaints.

Thirteen councils received a qualified audit report for not meeting those reporting obligations.³ These councils had incomplete records of complaints, so we were unable to determine whether the results the council reported for these performance measures were correct.

The measures are important because numbers of complaints are indicative of the quality of services received by ratepayers, as well as the scale of the issues that are the subject of the complaints.

Four⁴ of the 13 councils that received qualifications are shareholders of Wellington Water Limited. Those four councils used information from their own systems in combination with information provided by Wellington Water Limited to report the results for the performance measures.

This information was not classified in keeping with the Department of Internal Affairs' guidance and we could not gain assurance over the completeness and accuracy of the reported results.⁵

Our auditors identified issues with the performance measures for:

- the total number of complaints received (for water supply, wastewater, and stormwater); and
- the quality of comparative year information about maintenance of the reticulation network (for water supply).

Two councils received qualified opinions for other water-related measures. **Hastings District Council** could not provide enough evidence for the water loss percentage it reported, and **Napier City Council** was unable to accurately report on fault response times for each of the three water services.⁶

3 Dunedin City Council, Hastings District Council, Horowhenua District Council, Hutt City Council, Palmerston North City Council, Porirua City Council, Rangitikei District Council, South Taranaki District Council, Southland District Council, Tararua District Council, Taupo District Council, Upper Hutt City Council, and Wellington City Council.

4 Hutt City Council, Porirua City Council, Upper Hutt City Council and Wellington City Council.

5 Six councils, (Hutt City Council, Porirua City Council, Upper Hutt City Council, Wellington City Council, Greater Wellington Regional Council and South Wairarapa District Council) are joint shareholders in Wellington Water Limited. Wellington Water reports its performance in providing water services to the six councils. The six councils are also required to report this performance in their respective statements of service performance.

6 Hastings District Council also had issues with the number of complaints for three water services.

Performance reporting systems

For the past five years, **Kaikōura District Council** has not had reliable systems and processes in place to accurately report on just over a quarter of its performance measures.⁷ This year, for three material measures,⁸ the Council was either not able to report any performance or had reported performance information as incomplete.

The large number of qualifications on councils' service performance information indicates that many performance systems are not fit for purpose. These weaknesses in performance reporting systems make it harder for the community to trust the reported performance. They also make the audit process less efficient for councils.

We want to see councils make improvements to their performance reporting systems so that they are robust and producing reliable data. Otherwise, it is difficult for a council to clearly understand its performance and where it needs to focus its resources to maintain the appropriate levels of service for its communities. It also means that councils are not clearly demonstrating their performance to their communities, which undermines the ability of the public to hold them to account.

Performance measures about greenhouse gas emissions

Councils are giving greater consideration to the impact of their emissions on the climate. One of the ways they are doing this is through measuring and reporting their greenhouse gas emissions. This is difficult because it is a new area of measurement, technical, and inherently uncertain. We acknowledge the work done by councils that have reported in this way.

In our next report, we will provide an analysis of reporting on greenhouse gas emissions.

For 2021/22, **Greater Wellington Regional Council** included two measures of greenhouse gas emissions in its performance information. It covered emissions

7 For the previous five years, the Council's ability to measure, and therefore report against, some of its performance measures was impaired by the earthquakes. The Council's focus on emergency response and recovery has meant that recording information for management and external reporting purposes was not carried out in a robust and reliable manner.

8 The material measures related to the following activities: roading, water supplies, and wastewater.

generated directly, emissions from the services it is responsible for (such as public transport), and emissions from the use of the Council's assets (such as grazing in regional parks). The performance information also included a new measure specifically on the quantity of emissions generated from Metlink's public transport services.

The Regional Council is still working on the systems and controls needed to produce reliable evidence to support the data inputs and estimations used in measuring the emissions. This meant that we were unable to conclude whether the reported performance was materially correct and had to give a qualified audit opinion.

Wellington City Council also chose to include in its performance information a measure of the quantity of greenhouse gas emissions. We gave a qualified audit opinion because, for some of the information, the Council relied on spending-based emissions factors based on 2007 data. There was insufficient evidence to show that those factors are still relevant now, and no source of other evidence to conclude that the reported performance was materially correct. This meant the scope of our audit was limited to the extent that we needed to give a qualified audit opinion.

For both councils, we considered these performance measures to be material because the councils have declared a climate emergency and because of the public interest in climate change-related information.

We have a climate change performance audit under way, which will focus on identifying examples of good practice by councils. We anticipate that our findings will support councils to engage more effectively with their communities about their climate change actions.

Resource and building consents

Councils have a statutory requirement to process most building consent applications within 20 working days. There is guidance available on how the days should be counted.⁹

As part of the audit of councils' service performance, auditors often look at whether councils meet this requirement. This timeliness requirement can also

⁹ The Ministry of Business, Innovation and Employment has issued guidance to help councils in applying Regulation 7 of the Building (Accreditation of Building Consent Authorities) Regulations 2006, including how to count the number of days for processing.

be used as an indicator of councils' effectiveness in responding to growth. This is because the timely processing of consents indicates how responsive councils are to an increasing demand for infrastructure.

Two councils received qualifications in relation to processing times for consents.

Dunedin City Council had an audit completed by International Accreditation New Zealand of the Council's Building Services during 2021/22. The audit identified that the Council had not been counting the number of days taken to process building consents in keeping with the guidance. Our audit testing also identified issues with the dates recorded for processing building consents.

As the Council had not recalculated the timeliness of consent processing in keeping with the guidance, we were unable to determine whether the Council's reported result for this performance measure was materially correct and had to issue a qualified audit opinion.

Manawatū District Council also received a qualification for processing building and resource consent applications in accordance with statutory time frames. In reporting its performance for the Regulatory group of activities, the Council reported against performance measures on:

The percentage of building consent applications and code of compliance certificates that are processed and approved within the statutory 20 working days.

The percentage of applications for resource consent under the Resource Management Act which are processed in accordance with the statutory timeframes for non-notified consents.

The sample of consents we looked at had recorded processing times that were inconsistent with the information the council held to support the consent application. The inaccuracies meant that we could not determine whether the Council's reported results for these two measures were materially correct.

Audits and the financial statements

Seven councils received qualified opinions on asset valuation aspects of their financial statements:

- Napier City Council;
- Waitaki District Council;

- Kaikōura District Council;
- Invercargill City Council;
- Marlborough District Council;
- Dunedin City Council; and
- Taranaki Regional Council.

Qualifications due to asset valuations

Asset valuations are a critical part of effective and efficient asset management. Asset valuations reflect the actual cost to renew and replace those assets. They assist councils in assessing the condition and performance of their assets, to inform planning for repairing and replacing community-funded assets.

Accounting standards require councils that measure assets at fair value to carry out revaluations regularly enough to ensure that revalued assets are not included at a value that is materially different to their fair value.

Revaluations also provide councils with more realistic costs of service delivery. This keeps councils accountable to their communities for their financial decisions and resource management.

Asset valuations can directly affect the accuracy of a council's balance sheet and its ability to provision accurately for service costs and future needs of its community. Councils have assets that are worth a significant amount of money, so an inaccurate asset valuation can result in a material misstatement of the council's financial statements.

Napier City Council and Waitaki District Council received qualifications because we considered that, based on an analysis of relevant indices and advice to the councils from independent expert valuers, there was evidence that there could be a material change in the fair value of their water, wastewater and stormwater assets and operational land and buildings (and roading, in the case of Waitaki District Council).

The councils had not carried out revaluations of these assets as at 30 June 2022, so we could not determine the amount of any adjustment required.

Kaikōura District Council and Invercargill City Council had received similar qualifications to Napier City Council and Waitaki District Council in 2020/21.

Both councils had revalued their assets in 2022 and our auditors were satisfied the fair value for 2022 was accurate. However, as we did not know whether the 2020/21 balances were accurate, we did not

know if the revaluation movement recognised was accurate and complete. The available information suggested the difference between the amounts attributed to those assets and what they might actually be worth in 2020/21 could have been significant.

Marlborough District Council received a qualified opinion on its financial information because there was some evidence that the methodology it used might have resulted in the valuation being based on unit rates that did not appropriately reflect the current contract rates for renewing the Council's three waters infrastructure assets.

As a relatively small Council, there are few construction contracts on which to base unit costs, and contracts are now based on output specifications (rather than the more traditional input pricing methodology). The Council intends to review whether its current approach is still appropriate. That review might result in a change of approach and could also materially alter the carrying value of the water, sewerage, and stormwater assets.

Dunedin City Council received a qualified opinion on its financial statements because of the valuation of its three waters infrastructure assets in 2021. In 2021, there was some evidence that the Council's methodology might have resulted in the valuation being based on replacement costs that were significantly lower than they should have been.

The Council revalued its three waters infrastructure as at 30 June 2022. Our auditors obtained sufficient appropriate evidence for this valuation, however any misstatement from the previous year affected the revaluation in the statement of comprehensive revenue and expense for the year ended 30 June 2022.

Taranaki Regional Council received a qualification on its financial information because of uncertainties over the carrying value for the Eastern and Western stands of Yarrow stadium in the prior year. For 2021/22, the Council had progressed its restoration project and the previous issues had been resolved. However, our opinion was qualified due to the possible effects of the prior year issues on the comparative year figures.

Emphasis of matter paragraphs

Of the 78 audit reports we issued to councils, 69 (88%) included one or more emphasis of matter paragraphs.

The water services reform program

In June 2022, the Government introduced legislation to establish four publicly owned water services entities with effect from 1 July 2024. The proposed reforms would mean that councils would no longer deliver three waters services or directly own the assets required to deliver these services.

As a response to the Affordable Waters Reform, we included an emphasis of matter paragraph in 67 council audit reports to draw attention to relevant disclosures in the financial statements and performance information.¹⁰

In April 2023, the Government proposed further amendments to the number of water services entities and introduced a staggered timeframe to establishment the entities, with all of them set to go live between 1 July 2024 and 1 July 2026. This added to the uncertainty for councils and for auditors.

Uncertainties in the fair value of CentrePort Limited shares

For **Manawatu-Wanganui Regional Council** (Horizons), we drew attention to disclosures outlining the uncertainties over the estimation of the value of CentrePort Limited shares. The assumptions underpinning the valuation are sensitive to change.

Uncertainty of the financial impact of the damage to assets from extreme weather events

Marlborough District Council, Tararua District Council, Thames-Coromandel District Council, Far North District Council, and Whangarei District Council all received an emphasis of matter paragraph related to extreme weather events.

These councils were all affected by the extreme weather events that occurred after 30 June 2022 and caused a lot of damage to their assets.

The financial impact of the damage, at the time of signing the audit opinions, was yet to be determined but expected to be significant. The councils also expected to recover some of the costs through insurance and from central government agencies.

Contingent liability for building-related claims estimate

We drew attention to Queenstown Lakes District Council's disclosures about a contingent liability for building-related claims. The Council was unable to reliably determine a liability provision in relation to a building-related claim.

Inherent uncertainties in the calculation of greenhouse gas emissions

Auckland Council, Hawke's Bay Regional Council, Palmerston North City Council, and Hutt City Council all chose to include measures of their greenhouse gas emissions in their performance information.

Considering the public interest in climate change-related information, we drew attention to disclosures outlining the uncertainty in the reported emissions. Quantifying greenhouse gas emissions is subject to inherent uncertainty. The scientific knowledge and methodologies to determine the emissions factors, and the processes to calculate or estimate quantities of emission sources, are still evolving, as are the reporting and assurance standards.

City Rail Link project – additional cost claims for the impact of Covid-19

For Auckland Council, we drew attention to disclosures that City Rail Link Limited has received claims from the Link Alliance for additional costs due to Covid-19 related matters. City Rail Link Limited was unable to reliably estimate the amount of the settlement because the outcome of the claims was uncertain. However, the amount might be significant and might require additional funding from the project's sponsors, including Auckland Council.

Key audit matters

The auditor of Auckland Council was required to report on "key audit matters" because Auckland Council is a Financial Markets Conduct reporting entity.

Key audit matters are matters that are considered complex, have a high degree of uncertainty, or are important to the public because of their size or

¹⁰ The Chatham Islands Territory is not subject to the Water Services Act 2022. The Chatham Islands Council will continue to provide water services for the Chatham Islands Territory.

nature. Auditors include them in audit reports to help readers understand the main matters that attracted the auditor’s attention during the audit.

The audit report for Auckland Council included the following key audit matters:

- valuation of property, plant, and equipment;
- valuation of the weathertightness and associated building defect claims provision;
- valuation of derivatives; and
- reporting performance on three waters, transport, and housing in response to population growth.

When councils adopted their 2021/22 annual reports

The Local Government Act 2002 requires councils to:

- complete and adopt an annual report that contains audited financial statements and service performance information within four months of the end of the financial year;
- make the audited annual report publicly available within one month of adopting it; and
- make an audited summary of the annual report publicly available within one month of adopting the annual report.

The change in timeliness for councils adopting their annual reports for 2021/22 reflected the ongoing effects of the Covid-19 pandemic. Despite extended reporting timeframes, only 43 of the 78 councils adopted their annual report on time, and nine councils were more than five months late.

The delays in adopting the annual reports did not affect councils’ performance in making their annual reports available to the public. Most councils (76 of 78) made their annual report publicly available within a month of adoption, and 68 of the 78 councils released their summary annual report on time.

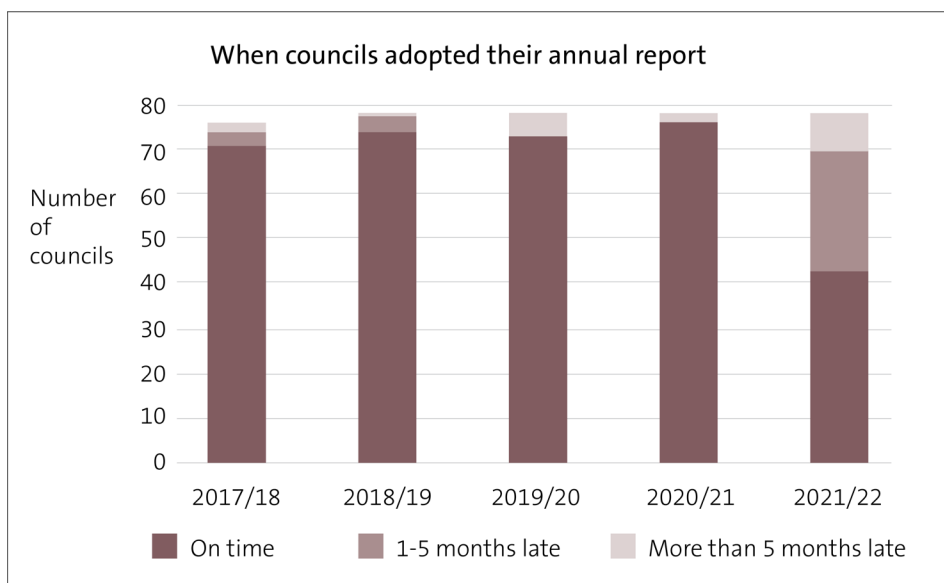
Covid-19 and the international auditor shortage

As we have previously reported, the Covid-19 pandemic coincided with an international auditor shortage. All our audit service providers were unable to find enough audit staff and had to prioritise work. Ongoing lockdowns, alert level changes, and border closures continued to severely disrupt public organisations and audit firms around the country.¹¹ Businesses globally faced multiple and unprecedented disruptions.

In response to the Covid-19 pandemic, Parliament passed legislation to extend by two months, for the next two years, the statutory time frames for councils (and other public organisations) to present their audited financial statements.¹²

11 In August 2021, New Zealand entered nationwide lockdown due to a case of community transmission in Auckland of the Covid Delta Variant. Auckland remained in some form of lockdown until 3 December 2021. The Government gradually eased other restrictions between February and May 2022.

12 Legislation was passed in May 2020. The extension applied to both 2020/21 and 2021/22. See the [Annual Reporting and Audit Time Frames Extensions Legislation Bill 53-1 \(2021\)](#) for more details.



For councils, this moved the statutory reporting deadline from 31 October to 31 December.¹³ The statutory time frames were extended so that council staff and auditors could maintain the quality of the financial and performance reporting, despite the difficulties caused by the Covid-19 pandemic. The 2021/22 financial year was the final year for extended statutory time frames.

We took several steps to relieve pressure on the audit system. Our priority was to protect the quality of audits while maintaining the well-being of council staff and audit staff. This meant that some audits were not completed on time and 35 councils (45%) had their audit opinions signed after the revised statutory reporting deadline.

Thirteen of those late audits were “planned deferrals”, to relieve the pressure people were under. The remaining 22 councils missed their statutory deadline for different reasons, including:

- a difficult labour market affecting council staff capacity and capability;
- higher than normal levels of illness for council and audit staff;
- delays caused by third parties (such as valuers, who could not always provide their valuations in time);
- a need to resolve technical audit issues due to increasing complexity in audits;
- extreme weather events due to some councils being focused on their emergency response or because there was a direct effect on the accounts; and
- a late change in audit service provider, needed to respond to the pressures on the auditing system.

Where councils missed the statutory deadline, we referred to it in our audit reports.

The delays in the 2021/22 audit round highlight the increasing complexities in the operating environment for councils and for audit staff.

Our next report about councils and the wider sector

As noted, our full report about councils and the wider local government sector will be available in 2024. That report will include analysis for both 2021/22 and 2022/23 and will include a more in-depth review of the themes identified in this article.

¹³ If a public organisation’s reporting deadline falls on a non-working day, the requirements of the Legislation Act 2019 apply, which requires the reporting deadline to move to the next working day. Because 31 December 2022 was a Saturday, the next working day was 4 January 2023.