

To the reader:

Independent Auditor's report on Mackenzie District Council's 2021-31 long-term plan

I am the Auditor-General's appointed auditor for Mackenzie District Council (the Council). The Local Government Act 2002 (the Act) requires the Council's long-term plan (plan) to include the information in Part 1 of schedule 10 of the Act. Section 94 of the Act requires an audit report on the Council's plan. Section 259C of the Act requires a report on disclosures made under certain regulations. I have carried out this work using the staff and resources of Audit New Zealand. We completed our report on 14 December 2021.

Adverse opinion – assumptions over three waters ownership and service delivery from 1 July 2024 are not reasonable

In our opinion, because of the significance of the matter described in the Basis for adverse opinion section of our report:

- the plan does not provide an effective basis for:
 - long-term integrated decision-making or co-ordination of the Council's resources and
 - accountability of the Council to the community.
- the information and assumptions underlying the information in the plan is not reasonable; and
- the disclosures on pages 175 to 179, which represent a complete list of the disclosures and reflect the information drawn from the plan, as required by Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations), are not appropriate because of our above-mentioned opinion.

Basis for adverse opinion

In July 2020 the Government announced the Three Waters Reform Programme. The Programme included a review of water service delivery. At the consultation phase for the long-term plan, there were numerous uncertainties over the effects of the reforms on the Council, because no decisions had been made. Therefore, the Council assumed that it will retain ownership of three waters assets and remain responsible for the service delivery of three waters services for the life of the plan.

On 27 October 2021, the Government publicly announced that legislation will be introduced to establish four publicly owned water services entities to take over responsibility for three waters service delivery and infrastructure from local authorities, from 1 July 2024. The Council has, however, not amended its forecast information, after this announcement, to reflect these changes in responsibility.

The Council's assumption that it will continue to deliver three waters services after 1 July 2024 is now not reasonable or supportable, which means that the Council does not have a credible plan from 2024 onwards.

The impact of the assumptions on the plan are pervasive given the significance of three waters infrastructure and service delivery to the Council. We did not determine the impact of the reforms on the plan because it was impracticable for us to do so.

We carried out our work in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. In meeting the requirements of this standard, we took into account particular elements of the Auditor-General's Auditing Standards and the International Standard on Assurance Engagements 3400: The Examination of Prospective Financial Information that were consistent with those requirements.

We assessed the evidence the Council has to support the information and disclosures in the plan and the application of its policies and strategies to the forecast information in the plan. To select appropriate procedures, we assessed the risk of material misstatement and the Council's systems and processes applying to the preparation of the plan.

We did not evaluate the security and controls over the electronic publication of the plan.

Emphasis of matters

Without further modifying our opinion:

We draw attention to the following matter.

Breach of the Local Government Act 2002

Page 5 states the Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

We also draw specific attention to the following matters which affect the first three years of the plan.

Delivery of the capital programme

Pages 161 to 162 and 235 to 237 outline the capital programme the Council proposes to deliver and the implications if it is not delivered as planned. While the Council has taken steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme, due to the availability of contractors. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Canterbury flooding event

Pages 282 to 283 outline the significant flooding event that occurred during May 2021 in the Canterbury region. The Council has not made amendments to the forecasts contained in the plan because it assesses it can complete flood remediation work within existing budgets. This is because existing forecasts include allowances for weather related events, and existing works are able to be

reprioritised to address flooding damage. This increases the risk that assets requiring renewals or maintenance may be deferred, which may impact service levels.

Responsibilities of the Council and auditor

The Council is responsible for:

- meeting all legal requirements affecting its procedures, decisions, consultation, disclosures, and other actions relating to the preparation of the plan;
- presenting forecast financial information in accordance with generally accepted accounting practice in New Zealand; and
- having systems and processes in place to enable the preparation of a plan that is free from material misstatement.

We are responsible for expressing an independent opinion on the plan and the disclosures required by the Regulations, as required by sections 94 and 259C of the Act. We do not express an opinion on the merits of the plan's policy content.

Independence and quality control

We have complied with the Auditor-General's:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 issued by the New Zealand Auditing and Assurance Standards Board; and
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this audit and our audit of the Council's annual report, we have carried out a limited assurance engagement relating to the District Council's Debenture Trust Deed and provided probity assurance over procurement processes. These engagements are compatible with those independence requirements. Other than these engagements we have no relationship with or interests in the Council.



Chris Genet
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand