



Waitomo District Council and Group

Report to the Audit and Risk Committee
for the year ended 30 June 2025

Purpose of report

This report has been prepared for Waitomo District Council's Audit and Risk Committee (the 'Committee') and is part of our ongoing discussions as auditor in accordance with our engagement letter dated 8 April 2025 and as required by auditing standards issued by the Auditor-General that incorporate New Zealand auditing standards.

This report is intended for the Committee (and other Council members) 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 covers the matters for the Waitomo District Council (the 'Council'). A separate report has been presented to the Board of Directors of Inframax Construction Limited.

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

Responsibility statement

We are responsible for conducting an audit of Waitomo District Council and its subsidiaries (the 'Group') for the year ended 30 June 2025 in accordance with New Zealand auditing standards issued by Auditor-General that incorporate New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board.

This includes separate opinions on:

- *Waitomo District Council and the Consolidated Group*
- *Inframax Construction Limited*

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 and performance information 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 Group'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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Our final report



Introduction

Dear Committee

We are pleased to provide you with the results of the audit of Waitomo District Council (the 'Council') and its subsidiaries (the 'Group') for the year ended 30 June 2025. Included in this report are the results and insights arising from our audit which we consider appropriate for the attention of the Committee and Councillors. These matters have been discussed with management and their comments have been included where appropriate. We also include those matters we are required to report to you in accordance with the auditing standards. As a result, this report is intended for the Committee and Councillors and should not be distributed further.

We would like to take this opportunity to extend our appreciation to management and staff for their assistance and cooperation during the course of our audit.

We hope the accompanying information will be useful to you, and we look forward to answering your questions about our report.

Matt Laing, Partner
for **Deloitte Limited**

Appointed Auditor on behalf of the Auditor-General
Hamilton | 9 October 2025



Executive Summary

This executive summary details the key matters arising from our audit

Key areas of audit focus		Status
1	Valuation of infrastructure assets	✓
2	Valuation of investment in Inframax Construction Limited	🔍
3	Management's override of controls	✓
4	Revenue recognition	✓
5	Statement of Service Performance	🔍
6	ESG and climate change	✓
7	Matters raised by the Office of the Auditor General	🔍
✓	Completed, no issues noted.	🔍
🔍	Completed, insights identified.	🔍
🔍	Completed, significant findings identified.	🔍

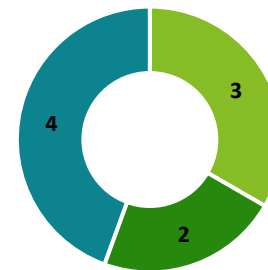
Matters of interest

Changes and developments associated with the Local Water Well Done initiative have occurred throughout the financial reporting period and continue to evolve.

During the year, a Heads of Agreement was signed by the participating councils within the region, including Waitomo District Council and Waikato Waters Ltd was established. At the time of finalising the audit, the Waitomo Service Delivery Plan had just been approved by the Department of Internal Affairs; however, there is still uncertainty regarding the operation of Waikato Waters Ltd, including transitional costs and how the new entity will function. As a result, Council has included disclosure in the annual report explaining the developments relating to the Local Water Well Done initiative, the establishment of Waikato Waters Ltd and the uncertainties related to future operations, including the inability at this stage to quantify the financial impact of this change. Given the significance of these matters, an emphasis of matter has been included in the audit opinion to highlight this.

There will also be additional accounting considerations and requirements for FY26. Based on the current plan Council intend to transfer relevant water assets to Waikato Waters Ltd on 1 July 2026. We will continue to work with management in this area and what is required next year.

Control deficiencies**



■ New ■ Recurring ■ Remediated

**Note this chart excludes IT Findings and Process Improvements, which have been considered and included in an Appendix to this report.

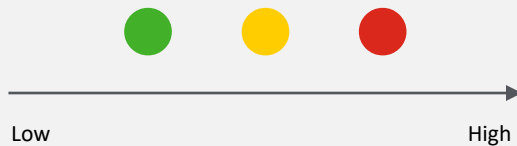


Areas of audit focus – dashboard

The following areas of audit focus are consistent with the areas identified in our planning report. Findings in respect of the control environment are discussed later in this report.

Area of audit focus	Significant risk	Fraud risk	Reliance on controls	Level of management judgement required	Findings
Valuation of infrastructure assets	✓	✗	✗	●	✓
Valuation of investment in Inframax Construction Limited	✗	✗	✗	●	🔍
Management's override of controls	✓	✓	✗	●	✓
Revenue recognition	✗	✗	✗	●	✓
Statement of Service Performance	✗	✗	✗	●	🔍
ESG and climate change	✗	✗	✗	●	✓
Matters raised by the Office of the Auditor General	✗	✗	✗	●	🔍

Level of management judgement required



Findings



Completed, no issues noted



Completed, insights identified



Completed, significant findings identified



Areas of audit focus

Area of audit focus	Our approach	Audit findings
<p>Valuation of infrastructure assets</p> <p>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.</p> <p>The following are the asset classes carried at fair value and the year they were last revalued:</p> <ul style="list-style-type: none">• Land and Buildings – operational and restricted – 30 June 2022 and subsequently this year• Three waters infrastructure – 30 June 2022 and subsequently this year• Roading and solid waste– 30 June 2023 <p>In the current year Land and Buildings and Three Waters asset classes have been revalued. The valuation of assets is a complex area that involved several assumptions and judgements being applied. We have determined that a significant risk exists and pinpointed this to the key assumptions in the valuations for these asset classes however there are other risks relating to the other assumptions.</p> <p>For the other asset classes, management were 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 approximated fair value, required a degree of judgement and consideration of different assumptions. Input into these assumptions may come from in-house or independent experts. Where there were indicators that the carrying value is materially different to the fair value a revaluation is required to be undertaken.</p>	<p>For infrastructural assets carried at fair value but not revalued in the current year, we have:</p> <ul style="list-style-type: none">• Obtained management’s assessment of the indicative movement in fair value for all assets classes carried at fair value;• Obtained supporting documentation from independent valuers supporting the indicative fair value movement (if applicable); and• Reviewed the key assumptions applied in determining the indicative fair value, assessed and challenged management’s overall conclusions. <p>For infrastructural assets carried at fair value and revalued in the current year, we have:</p> <ul style="list-style-type: none">• Obtained the revaluation of infrastructure class(es);• Obtained representation directly from the independent valuer confirming their methodology;• Reviewed 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• Ensured the revaluation transaction is correctly accounted for and disclosed in the financial statements in order to comply with PBE IPSAS.	<p>No issues have been noted regarding the roading and solid waste fair value assessments performed by management’s expert.</p> <p>No issues have been noted regarding the revaluations of three waters and land and buildings assets.</p>



Areas of audit focus (cont.)

Area of audit focus	Our approach	Audit findings
<p>Valuation of investment in Inframax Construction Limited</p> <p>The Council own 100% of Inframax Construction Limited (“Inframax”) and the investment is held for a strategic purpose. The Council’s accounting policy is to measure this investment at fair value through other comprehensive revenue and expense.</p> <p>As the asset is held at fair value a detailed assessment needs to be performed to determine the fair value of this investment at the end of each reporting period.</p>	<p>As part of our audit procedures, we have:</p> <ul style="list-style-type: none">• Inquired with management if there is any change in intention/purpose for the investment;• Obtained the independent valuation report for the investment held in Inframax Construction Limited;• Considered the external valuer’s independence by reviewing their final report and assess their competency and methodology used;• Engaged our internal experts to evaluate the appropriateness of valuation approach used and earnings multiple used;• Considered and challenged the key underlying assumptions used in the valuation; and• Ensured the valuation movement is correctly accounted for and disclosed in the consolidated financial statements in order to comply with Public Benefit Entity International Public Sector Accounting Standards (“PBE IPSAS”).	<p>Based on our procedures performed on the reported valuation of the investment in Inframax Construction Limited we did not identify any material issues.</p> <p>We would like to bring to your attention that our internal specialists reviewed the cross-checks applied in the external valuer’s independent business valuation whilst also performing their own independent cross-checks of the valuation. Through this our internal specialists noted that alternative cross-checks may be more appropriate in supporting the valuation determined and we would encourage management to work with the external valuer in the coming period to consider these alternate cross-checks. Additionally, challenges have been encountered in the current year in obtaining appropriate justification and support from management’s expert.</p>



Areas of audit focus (cont.)

Area of audit focus	Our approach	Audit findings
<p>Management override of controls</p> <p><i>ISA (NZ) 240 The auditor's responsibility to consider fraud in an audit of financial statements</i> 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>As part of our audit procedures we have:</p> <ul style="list-style-type: none">• Understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements.• Tested the appropriateness of a sample of journal entries and adjustments and made enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments.• Reviewed 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.• Performed a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.• Obtained 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 Group and its environment.	<p>Based on our procedures performed, we did not identify any material issues associated to the procedures performed.</p>



Areas of audit focus (cont.)

Area of audit focus	Our approach	Audit findings
<p>Revenue recognition</p> <p><i>ISA (NZ) 240 The auditor's responsibility to consider fraud in an audit of financial statements</i> 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 Public Benefit Entity Standards.</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. Considering the processes in place and the nature of revenue received, we have rebutted the significant risk of fraud associated with revenue recognition.</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 <i>Local Government (Rating) Act 2002 (LGRA)</i> 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>We have performed the following audit procedures to ensure that revenue recognition was appropriate:</p> <ul style="list-style-type: none">• Understood, evaluated and assessed the relevant controls that address the risks of revenue recognition;• Assessed the quality of information produced from the IT system and ensured accuracy and completeness of reports that were used to recognise revenue;• Completed analytical procedures by developing expectations for revenue recognised based on our knowledge of the sector and key performance measures;• Assessed the impact of any changes to revenue recognition policies.• Completed a 'rates questionnaire' compiled by the Office of the Auditor General*, to confirm whether rates have been correctly set; and• Reviewed the meeting minutes recording the adoption of the rates resolution, to ensure the rates were in accordance with the Revenue and Financing Policy as well as reviewed any other information available with regards to rates. <p>*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>	<p>Based on our procedures performed, we did not identify any material issues associated to the procedures performed.</p>



Areas of audit focus (cont.)

Area of audit focus	Our approach	Audit findings
<p>Statement of Service Performance</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">• Is based on appropriately identified elements (outcomes, impacts, outputs), performance measures, targets/results; and• Fairly reflects actual service performance for the year (i.e. not just reports against forecast).	<p>We have:</p> <ul style="list-style-type: none">• Reviewed Council's SSP against legislative requirements and good practice. This included checking consistency with the performance framework included in the 2024-2034 Long Term Plan;• Performed a risk assessment, based on qualitative and quantitative factors, to determine material performance measures.• Performed an analytical review and understanding of measures reported against in the current year and prior year.• Performed detailed procedures on those procedures deemed to be material and assessed the completeness and accuracy of the underlying data.• Where applicable, tested the controls associated to the collection of data or review process over non-financial measures. This included performing a walkthrough of selected controls and sighting supporting documentation to corroborate our understanding;• Where appropriate, reviewed the work of any expert used, including the expert used for drinking water quality measures; and• Reviewed 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" and that significant judgements and assumptions are disclosed.	<p>Based on our procedures we did not identify any material issues. We did identify an improvement which is detailed in "Your control environment and findings" section of this report.</p>



Areas of audit focus (cont.)

Area of audit focus	Our approach	Audit findings
<p>ESG and Climate Change</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 Annual Report. We will consider the Council's consideration of ESG and climate risks and tailor our audit approach as required.</p>	<p>Based on the work performed we did not identify any material issues for the purpose of our audit.</p>

Matters raised by the Office of the Auditor General

Area of audit focus	Our approach	Audit findings
<p>Effectiveness, efficiency, waste and probity</p> <p>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.</p> <p>We are required to remain alert for issues of effectiveness and efficiency, waste, and a lack of probity or financial prudence throughout the audit.</p>	<p>We have:</p> <ul style="list-style-type: none">Assessed the policies and procedures in place for expenses and procurement processes, andTested a sample of expenses for appropriateness against good practice and other guidance issued as relevant for the Council. Our tests were primarily focused on sensitive expenditure such as Councillors and senior management pay, travel and expenses; large contract tenders and related party transactions.	<p>Based on our procedures performed, we did not identify any material issues. We did identify improvement points which are detailed in "Your control environment and findings" section of this report.</p>



Areas of audit focus (cont.)

Matters raised by the Office of the Auditor General (cont.)

Area of audit focus	Our approach	Audit findings
<p>Government reviews and proposals</p> <p>There continues to be change in the sector with newly introduced or changes to regulatory requirements (new and updated national policy statements), 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.</p>	<p>As part of our audit process, we have:</p> <ul style="list-style-type: none">Continued to follow up and discuss with management the impact of these initiatives to the Council, and where necessary, considered them within our audit approach; andMaintained close communication with the Office of the Auditor-General in relation to these matters.	<p>Due to the importance of the matter an emphasis of matter has been included in the audit opinion. The current proposed wording for the emphasis of matter in the audit opinion is:</p>
<p>Local Water Done Well</p> <p>The Local Water Done Well reform is being implemented in three stages:</p> <p>Stage 1 – the affordable water reforms were repealed in February 2024</p> <p>Stage 2 – the Local Government Water Services Preliminary Arrangements Act 2024 (the Preliminary Arrangements Act) was passed in September 2024</p> <p>Stage 3 – the Local Government (Water Services Preliminary Arrangements) Act 2024 ('WSPA Act') came into force on 3 September 2024.</p>	<p>The key change for the financial statements related to changes and developments associated with the Local Water Well Done initiative.</p> <p>During the year, a Heads of Agreement was signed by the participating councils within the region, including Waitomo District Council and Waikato Waters Ltd was established. At the time of finalising the audit, the Waitomo Service Delivery Plan had just been approved by the Department of Internal Affairs; however, there is still uncertainty regarding the operation of Waikato Waters Ltd, including transitional costs and how the new entity will function.</p> <p>As a result, Council has included disclosure in the annual report explaining the developments relating to the Local Water Well Done initiative, the establishment of Waikato Waters Ltd and the uncertainties related to future operations, including the inability at this stage to quantify the financial impact of this change.</p>	<p>Emphasis of Matter – future of water delivery</p> <p><i>Without modifying our opinion, we draw attention to pages [X], which outlines that in response to the Government's Local Water Done Well reforms, the Council has decided to establish a multi-owned water organisation with South Waikato District Council, Waipā District Council, Matamata-Piako District Council, Ōtorohanga District Council, Hauraki District Council and Taupo District Council (as a shareholder in a limited capacity) called Waikato Waters Limited to deliver water and wastewater services from 1 July 2026. The financial impact of this decision is unknown because details of the exact arrangements are still being considered.</i></p> <p>We note that there will be further accounting considerations required for FY26. Based on the current advice provided by the Office of the Auditor General;</p> <ul style="list-style-type: none">The proposed transfer will not result in these assets being classified as held for sale; andThe activities associated with water operations will likely be considered a discontinued operation. <p>Management will need to consider these accounting implications, and we recommend completing this assessment early.</p> <p>The Office of the Audit General have further advised that the transfer of the water assets will require a Long-Term Plan amendment but will not be required this to be audited. However, if there are any other significant changes council will need to consider the implication of this which may require an audit.</p>



Control findings

Details of findings identified (Council only)

We set out below the details for the control deficiencies identified, recommendations and management response. We have obtained a current year update on the steps taken by management to remediate the prior year IT Findings and Process Improvements raised. This current year update has been included as an Appendix to this report.

Finding/observation	Deloitte recommendation	Management response	Type of deficiency
<p>Treatment of accrued expenses and payables (New)</p> <p>During our testing of accrued expenses, we noted that an item included in the year end accrued expenses listing had already been invoiced and paid prior to the year-end.</p> <p>Further, during our testing of unrecorded liabilities we identified an item that had been recorded in accounts payable and prepayments that was not paid for until post year end, with the expense relating to the following financial year.</p> <p>Both of these items are indicative of a lapse in the review process for accruals.</p>	<p>We recommend that management refine their review of period end accounts payable and accruals listings to ensure that all transactions are correctly accounted for in the respective accounting period.</p>	<p>Agreed – further refresher training will be provided to staff and the process reviewed to ensure we continue to accurately account for these transactions.</p>	!
<p>Timely review of policies (Recurring)</p> <p>During the walkthrough of the Tender Evaluation Process, it was observed that the Procurement Policy has not been reviewed since 2022 and therefore falls outside the recommended three-year review period outlined in current guidance. The council minutes dated 26/08/2025 indicate that this review was deferred; however, it was noted that regular policy reviews are essential to maintain their relevance.</p>	<p>We recommend that management ensure that all key policies are reviewed every three years.</p>	<p>A reviewed timetable was pushed out to incorporate the 5th edition government procurement changes. A reviewed Policy was taken to Council meeting in August where members made the decision to defer the review until a new Council was formed after the local body elections.</p>	!

Key – Deficiency level



Significant deficiency



Deficiency / Process Improvement



Control findings (cont.)

Details of findings identified (Council only)

Finding/observation	Deloitte recommendation	Management response	Type of deficiency
Timely claiming of expenses (New) During our review of sensitive expenditure, we identified instances where there was a significant delay between the date in which the expenses were incurred and the submission of claims. This practice does not align with better practice, relevant guidance and increases the risk that supporting documentation may be misplaced or lost over time.	We recommend expense claims are submitted on a timely basis to ensure all expenses are captured within the relevant month of when the expense occurred. This ensures timeliness of all expense claims and reduced the risk of supporting documentation getting lost.	Agreed – additional reminders will be communicated to ensure that claims are submitted in a timely manner.	!
Fixed asset register processing (Recurring) During our walkthrough of the processes around the Fixed Assets business cycle and testing of the year end balances, we noted that the fixed asset registers (MAGIQ and AssetFinda) continue to not be updated on a regular basis to reflect all additions, disposals and depreciation. The fixed asset register is an important control mechanism to ensure the general ledger reflects the correct balance. If the register is not updated correctly and on a regular basis and reconciled to the general ledger, errors may not be identified and corrected in a timely manner.	We recommend that the fixed asset registers to be updated at least on a quarterly basis and reconciliations be performed in line with the quarterly updates to the register. This will ensure that any errors are identified and resolved in a timely manner and will also ensure that the information reported to Council is accurate and includes depreciation on additions and the gain or loss on disposal of assets as it is incurred. We also recommend that a detailed review of all asset information held within the fixed asset registers be performed at least once a year to ensure that these are kept up to date and correctly reflect the assets owned by Council. Following the detailed review, regular checks should be performed to ensure this information remains correct.	Agreed. The completion of regular updates to the asset registers continues to be a work in progress for our team. Additions and disposals are completed during the year where information is readily available however in some instances additional information such as-as-builts and componentisation of additions needs to be worked through which can delay the process.	!

Key – Deficiency level



Significant deficiency



Deficiency / Process Improvement



Control findings (cont.)

Details of findings identified (Council only)

Finding/observation	Deloitte recommendation	Management response	Type of deficiency
<p>Statement of Service Performance (SSP) (New)</p> <p>It was noted that the Statement of Service Performance (SSP) reporting process currently lacks a detailed and systematic review, particularly regarding individual performance measures. While we understand that some review processes may have taken place through verbal discussions, there was no documented evidence available to confirm that these reviews had occurred. It is critical reviews are performed by staff with the relevant expertise for each group of activities reported.</p>	<p>We recommend that management should develop a formal review mechanism for each performance measure, which includes reviews undertaken by staff with appropriate expertise in each group of activities being reported. We would also recommend ensuring that there is evidence retained of these reviews.</p>	<p>Administration staff collating SSP data work closely with those teams and by and large have a good understanding of the data they are submitting. Checks of data are in some cases are done verbally and not recorded. A checking and sign-off record will be added to the process to formally capture this process.</p>	<p>!</p>

Key – Deficiency level



Significant deficiency



Deficiency / Process Improvement



Summary of unadjusted differences (Group)

We have communicated to management all misstatements accumulated during the audit and have requested that management correct those misstatements. We have obtained an understanding of the misstatements below, and management's reasons for not making the corrections, and based on our evaluations have determined that no uncorrected misstatements individually or in aggregate, have a material effect on the financial statements for the year ended 30 June 2025.

The unadjusted differences we have identified are set out below.

Unadjusted differences identified	Component	Assets Dr/(Cr) (\$'000)	Liabilities Dr/(Cr) (\$'000)	Equity Dr/(Cr) (\$'000)	Surplus or deficit Dr/(Cr) (\$'000)
Prior year:					
Incorrect provision for legal costs associated with ongoing litigation (pre-tax)	Inframax Construction Limited			(250)	250
Method of recognising accrued construction costs at period end (pre-tax).	Inframax Construction Limited			(477)	477
Total				(727)	727

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



Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on our audit report.

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Our opinion on the financial statements

Subject to completion of outstanding matters discussed below, we expect to issue an unmodified opinion on the financial report.



Going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

The changes under Local Water Done Well is of fundamental importance in the annual report that we consider it necessary to draw attention to it through an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

We are required to report on the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence) Regulations 2014 and disclosures as per Schedule 10 of the Local Government Act 2002. This is outlined in our audit opinion.

Outstanding matters required before we can issue our opinions and/or report

- Audit procedures on summary financial statements
- Council to approve the annual report and summary financial statements post completion of changes;
- Completion of subsequent event procedures;
- Signing of representation letter for the annual report; and
- Signing of Trustee Certificate and representation letter



Financial reporting and other developments



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

Major new standard, interpretation or amendment	Effective date (periods beginning on or after)
PBE IFRS 17 Insurance Contracts	1 January 2026
Amendments to PBE IFRS 17	1 January 2026
Initial application of PBE IFRS 17 and PBE IPSAS 41 – Comparative Information	1 January 2026
Insurance Contracts in the Public Sector (Amendments to PBE IPSAS 17)	1 January 2026

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



Support for better performance reporting

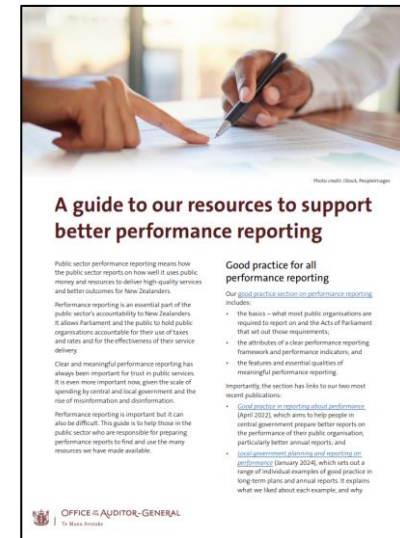
Observations from the OAG

Public sector performance reporting means how the public sector reports on how well it uses public money and resources to deliver high-quality services and better outcomes for New Zealanders. Clear and meaningful performance reporting has always been important for trust in public services. It is even more important now, given the scale of spending by central and local government and the rise of misinformation and disinformation.

Performance reporting is important, but it can also be difficult. In June 2024, the OAG issued this guide to help those in the public sector who are responsible for preparing performance reports to find and use the many resources that are available.

The report available [here](#), covers resources available for:

- All organisations with performance reporting;
- Central government or Crown entities;
- Councils;
- Tertiary education institutions;
- Health sector entities; or
- Reporting on performance across a sector.





Integrity in public organisations

Observations from the OAG

In December 2024, the OAG issued their updated integrity framework for the public sector, which is intended to support senior leaders and those in governance roles in upholding the integrity of New Zealand's public sector and navigating the ethical challenges that the public sector faces.

The report available [here](#), covers the three components of the framework:

- Building a stable foundation,
- Putting integrity at the core of the organisation, and
- Making integrity visible.

These components need to be designed and monitored as part of a coherent system of improvement

Once the framework has been understood, the OAG released a guide in January 2025 to help public organisations think about how to approach monitoring organisational integrity – how to do it effectively and in a way that adds value to the organisation. The report is available [here](#) and intended to help complement the work organisations might already be doing as part of their strategy to improve organisational integrity.



Components of the organisational integrity framework [Extract]

- *A stable foundation: Having a stable foundation means having a clear understanding of the organisation's purpose and values, which must be informed by the wider constitutional framework in which it operates.*
- *A strong core: A strong core requires the practices, systems, and policies that influence an organisation's culture to be aligned to the organisation's purpose and values. When they work in unison, they can directly contribute to the integrity of an organisation and the ethical behaviour of its people.*
- *Visible demonstration of integrity: It is important not only to design, maintain, and lead an organisation that has integrity at its core, but integrity also needs to be demonstrated in ways that are meaningful to everyone involved.*

Monitoring integrity in public organisations [Extract]

- *Monitoring organisational integrity: Organisational integrity is not just about complying with rules – it is about aligning every action with your organisation's purpose and values.*
- *Developing an effective integrity monitoring programme: We outline five practices that support an effective integrity monitoring programme.*
- *Approaches for monitoring organisational integrity: Monitoring organisational integrity isn't all or nothing – it can be built up over time. It might feel unfamiliar or different from other governance activities, but what is important is to begin.*



Governing cyber security risks

Observations from the OAG

Robust cyber security allows public organisations to provide services safely and reliably. It helps maintain trust in how the government handles and protects information. Governors need to spend enough time and engage the right expertise to properly understand cyber security risks and make sure their organisation is prepared to respond. In April 2025, the OAG published a guide to help governors support their organisations to reduce the gap between the amount of cyber security risk they are comfortable with and the amount of risk they currently face.

The report available [here](#), covers the following topics:

- Good cyber governance;
- Understanding risk;
- Cyber security starts at the top; and
- Cyber security is never finished.

The guide also includes a list of resources to utilise, as well as a checklist for governors to inform their cyber security work.



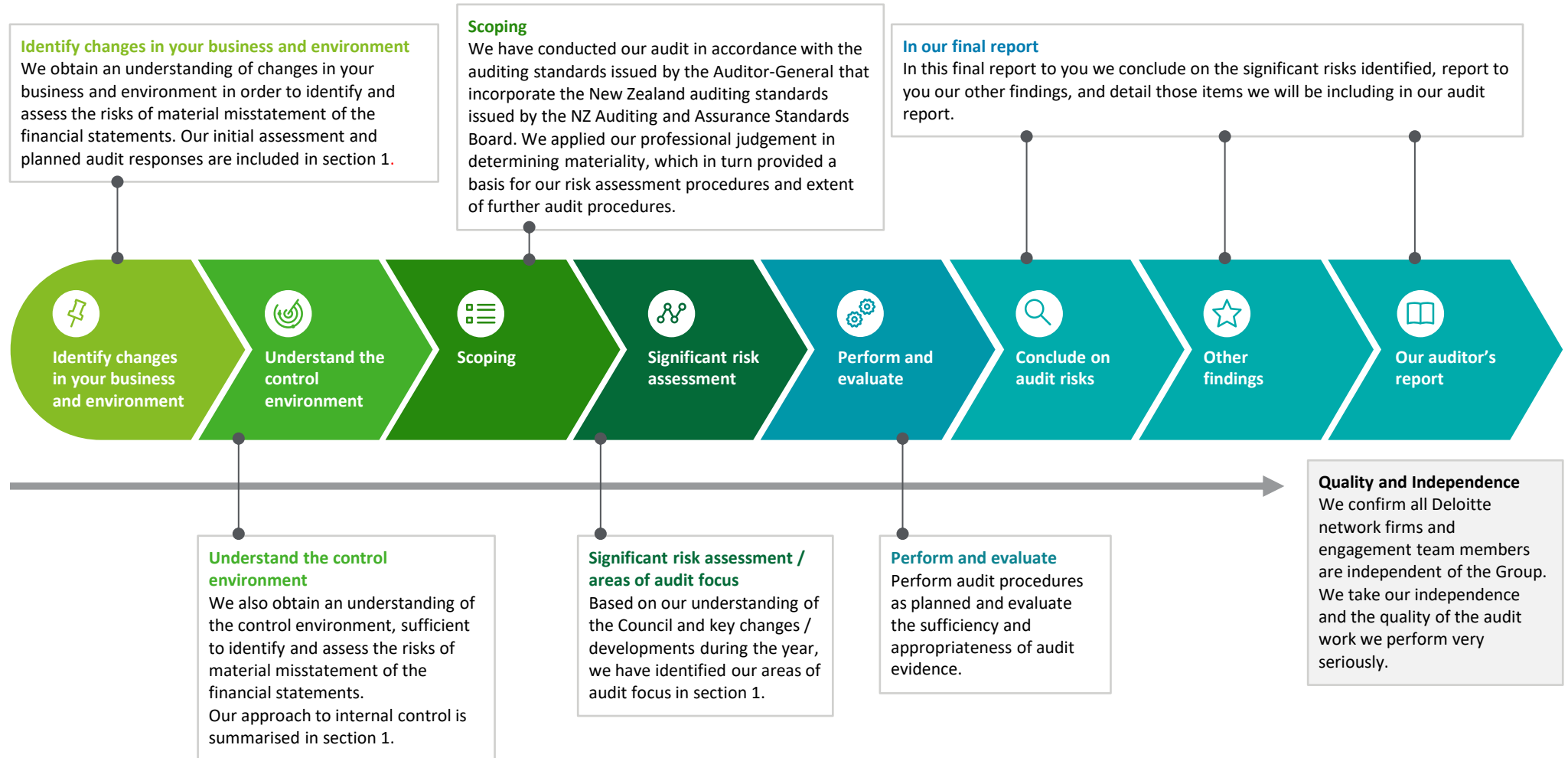


Appendices



Our audit explained

We tailor our audit to your business and your strategy





Report on our system of quality management

Deloitte believes an effective system of quality management (SQM) is crucial for the consistent performance of high-quality audit engagements and we continue to make significant investments in our people, processes, and technologies that underlie Deloitte's quality management processes.

Regulators and standard setters in New Zealand and globally are also focused on the effectiveness and continued improvements in firms' SQMs. Deloitte New Zealand complies with Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (PES 3) which requires annual evaluation of the SQM.

PES 3 introduced a risk-based approach to the SQM that require firms to respond to quality objectives and risks to our ability to execute high-quality audits in the following areas:

• The firm's risk assessment process	• Engagement performance
• Governance and leadership	• Resources
• Relevant ethical requirements	• Information and communication
• Acceptance and continuance of client relationships and specific engagements	• The monitoring and remediation process

The effective implementation of PES 3 has been and remains a key element of Deloitte's audit and assurance quality strategy.

As part of the implementation of PES 3, quality objectives, quality risks and responses were formalised and brought together in a globally consistent technology platform to facilitate the design and maintenance of the system, as well as the operation through tri-annual self-assessments by business process owners and reporting capabilities to support the required annual evaluation.

Deloitte New Zealand continues to work with leaders across the firm, as well as the broader network, to further enhance our proactive approach to managing the quality of engagements performed—identifying and addressing risks to audit quality and driving continued advancements in quality management processes serves us well into the future as the environment within which we operate continues to evolve and become increasingly complex.

Consistent with Deloitte's culture of continuous improvement and innovation, Deloitte New Zealand's efforts relating to PES 3 and our SQM provide us the opportunity to challenge ourselves—examining those areas where we can further enhance and transform our SQM. Quality is always front and centre, and robust audit quality monitoring processes play an integral role in our ability to continually improve.

PES 3 requires an annual evaluation of the SQM. Deloitte New Zealand performed its annual evaluation of its SQM as of 31 May 2025. This evaluation is required to be shared with those charged with governance when performing an audit of financial statements of FMC reporting entities considered to have a higher level of public accountability.

Conclusion on the effectiveness of the system of quality management

Deloitte New Zealand is responsible for designing, implementing, and operating a SQM for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that the objectives of the SQM are being achieved. The objectives are:

- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Deloitte New Zealand conducted its evaluation in accordance with PES 3.

Deloitte New Zealand concluded that the SQM provides the firm with reasonable assurance that objectives of the SQM are being achieved as of 31 May 2025.

Reasonable assurance is obtained when the system of quality management reduces to an acceptably low level the risk that the objectives of the SQM are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a system of quality management.

Mike Horne, Chief Executive Officer
for Deloitte Limited



Independence and fees

Fees

The professional fees earned by Deloitte Limited in the period from 1 July 2024 to 30 June 2025 are as follows:

	2025 (\$'000)	2024 (\$'000)
Fees payable for the audit of the Group financial statements	204	197
Fees for the audit of the subsidiaries pursuant to legislation (including OAG Audit Standards and Quality Support Charge and estimated disbursement and technology charge	141	133
OAG Audit Standards and Quality Support Charge	19	18
Estimated disbursement and technology charge	10	9
Total audit fees for financial statements	374	357
Other assurance services		
- Long Term Plan 2024-2034	-	115
- Trustee Reporting	8	8
Total audit related and other assurance fees	382	480



Other information in your annual report

Our work on other information is limited

We have a responsibility to read other information, whether financial or non-financial, that is included in your annual report. We have to assess the other information for consistency with the information and understanding we obtain during our audit of the financial statements and service performance information however we are not required to audit the disclosures or metrics presented. Our work is therefore limited, and no assurance is provided on the other information.

As a reminder, there are key elements of the annual report where we have further reporting responsibilities, this is summarized below.

Area	Work we do	Our comments and observations
From the Mayor and Chief Executive	●	We have read the Mayor's and Chief Executive's messages which are inline with our understanding of the council and audit process.
Your Council	●	This section is consistent with our understanding of the Council, audit and long term plan as audited in the prior year.
Our impact on the District	●	This section is consistent with our understanding of the council. These performance items sit outside the statement of service performance and are not included in our audit opinion. We have agreed these items back to underlying support and also read these for consistency and reasonableness.
Our financial performance	●	The financial performance are a summary of key highlights of the Council's performance for the 12 months ended 30 June 2025. These sit outside of the financial statements and are not included within our audit opinion however we have read this for consistency and reasonableness.
Our community outcomes	●	The community outcomes are inline with the long term plan. There are four overarching outcomes that sit outside the performance framework, representing the overarching strategy of the council. These sit outside of the statement of service information and are not included within our audit opinion however we have read this for consistency and reasonableness.
Our priority areas	●	This section is consistent with our understanding of the Council, audit and long term plan as audited in the prior year.

Work required by ISA (NZ):



Assess other information for consistency with the financial statements and information obtained in the course of the audit

Work beyond ISA (NZ) requirements:



Tested as part of a separate engagement



Other communications

Additional matters we report to you in accordance with the requirements of New Zealand auditing standards

Accounting policies / Financial reporting

There were no changes in accounting policies during the year ended 30 June 2025.

We have not become aware of any significant qualitative aspects of the Group's accounting practices, including judgements about accounting policies, accounting estimates and financial statement disclosures that need to be communicated to the Committee.

Related parties

No significant related party matters other than those reflected in the financial statements came to our attention that, in our professional judgement, need to be communicated to the Committee

Written representation

A copy of the representation letter to be signed on behalf of the Committee has been circulated separately.

Specialists

As planned, specialists assisted in the audit to the extent we considered necessary. The findings arising from their involvement are communicated in earlier sections of our report.

As planned, corporate finance specialists participated in assessing the valuation approach applied for the valuation of 100% shares in Inframax Construction Limited.



IT Findings and Process Improvements

Deloitte performed a review of the general IT control (“GITC”) environment in support of the external financial audit of Waitomo District Council in the prior year with IT Findings and Process Improvements being reported to the Committee. This Appendix summarises Management’s update on the remediation of these findings.

Observation Description	Business implication from control deficiency	Deloitte recommendation	Current year update
<p>Enhance User Access Management Procedures (Recurring)</p> <p>User Provisioning - No formal policy or process exists relating to user provisioning. The new user form is not fit for purpose and does not include a requirement for direct approval from the starters line manager. Further, it was noted that access is typically mirrored/copied from existing users and not explicitly defined upon request.</p> <p>User De-Provisioning - No formal policy or process exists relating to user de-provisioning for MagiQ. Terminated users have their access removed via an informal process, relying on a notification from HR leading to confusion between HR and IT regarding termination date and access revocation. We noted that in our sample testing, a users’ network access was not disabled until 8 days after their termination.</p> <p>User Access Reviews - Full user access reviews to validate the appropriateness of all user privileges are not performed on a periodic basis on the MagiQ application.</p>	<p>Without a reliable process to provision/de-provision user access or perform regular access reviews, users may inherit or retain privileges that are no longer valid or are beyond a user's current need. This could lead to unauthorised access to systems and data, resulting in risks to the completeness, accuracy, and validity of financial information. Additionally, there is an increased risk of inappropriate access when access is mirrored/copied from other users; due to the fact that as users move within the company additional privileges are granted which may cause future conflicts when mirrored.</p>	<p>We recommend the following:</p> <p>User Provisioning/ De-Provisioning</p> <ul style="list-style-type: none">•All new user requests, modified user requests, and termination requests, should follow established access management procedures, where requests are formally logged and monitored.•Management reviews the process to ensure access is not mirrored for new users, and explicit roles are requested for each new user. <p>User Access Reviews</p> <ul style="list-style-type: none">•Management should establish formal periodic reviews of all user accounts. This should include the following checks:<ul style="list-style-type: none">a. User permissions are appropriate for job functions.b. Business users do not have administrative-level permissions within the applications. If this access is required, overarching monitoring controls should exist to review the logged activity for these accounts.	<p>A monthly report is setup to be generated and sent to Chief Financial Officer, Financial Accountant, Chief Information Officer and Customer and Information Manager reviewing the general access users have to different modules. The CFO reviews the Finance level of access of the users. An onboarding/offboarding process review with a wider organisational team has started to refine and clarify these processes.</p> <p>An online HR module (Elmo) will be introduced to assist with managing the onboarding/offboarding process.</p>



IT Findings and Process Improvements (contd.)

Observation Description	Business implication from control deficiency	Deloitte recommendation	Current year update
<p>Enhance Third Party Vendor Risk Management (New)</p> <p>Waitomo District Council are significantly reliant on their third-party provider, MagiQ Software to host and manage the MagiQ Cloud application and its underlying infrastructure (database and operating systems).</p> <p>Despite significant reliance on third parties to perform control activities on behalf of Waitomo District Council; key third-party risks are not documented or monitored via an internal risk register. Without understanding of key risks, Waitomo District Council are unable to make an informed risk decision around assurance or controls to address third party risk. Additionally, MagiQ does not issue a service auditor report, such as an ISAE3402, providing assurance over internal controls.</p>	<p>Where Third Party Risk Monitoring is not appropriately managed there is a risk that the internal controls performed by the Vendor do not adequately address Waitomo District Council's business and IT risks. Waitomo is heavily reliant on MagiQ software to host and manage key aspects of the MagiQ application, where a failure of internal controls will directly impact the integrity of Waitomo's environment including financial and security data. Without adequate oversight over the controls performed by third parties on behalf of Waitomo, Waitomo will not identify potential weaknesses or gaps that will directly impact the systems they rely on.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none">•Management review and document third-party risks via an internal risk register. When deemed necessary, management document mitigating controls or procedures against these key risks and monitor residual risk per their risk appetite.•If necessary, management should obtain independent assurance (e.g., ISAE3402 Type 2 Reports) over third-party internal control environments, including the hosting of key applications storing Waitomo's Financial and User data. <p>If necessary, when independent assurance cannot be obtained, management should perform internal review processes or direct assurance activities over third-party internal control environments in line with established service level agreements.</p>	<p>MagiQ (Enterprise system software provider) has provided WDC with their Risk Management Procedure documentation in the form of the MagiQ Software Backup and Restoration Policy 2021.</p>



IT Findings and Process Improvements (contd.)

Observation Description	Business implication from control deficiency	Deloitte recommendation	Current year update
<p>Uplift Change Management Processes (Recurring)</p> <p>No Formalised Change Management Policy Waitomo District Council currently lacks a formal change policy within its operational procedures. Informal approvals are typically granted via email directly to vendors, and any change documentation, such as user acceptance testing information, is retained in emails.</p> <p>Monitoring of Vendor Database Changes Waitomo District Council does not have any oversight and monitoring controls to review changes applied to the database in relation to associated application changes.</p>	<p>Where policies and procedures are not formally signed-off and communicated to the business by management there is an elevated risk that users do not follow good security practises. With no formal change management process followed, unauthorised changes could be made to the system without management's approval. This could lead to potential downtime if untested changes are implemented to production.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none">•Management develop a formal change request policy to establish clear guidelines and approval procedures for changes their processes and systems. This policy will help ensure that all changes are thoroughly documented, reviewed, and approved in a structured manner, enhancing transparency and accountability within the organization.•Furthermore, Waitomo should implement oversight controls for reviewing database changes that are associated with requested application changes. This could include requiring documentation from vendors describing the nature of the change and potential impact to the system.	<p>A draft document for the Change Management Process is in progress.</p>



IT Findings and Process Improvements (contd.)

Observation Description	Business implication from control deficiency	Deloitte recommendation	Current year update
<p>Align password parameters to WDC's password policy (Recurring)</p> <p>During our testing, we observed that the password parameter settings in the MAGIQ Application did not align with WDC's password policy. The password policy specifies a minimum password length of 14 characters, whereas the network and, consequently, the MagiQ application are configured with a minimum password length of only 8 characters. Since MagiQ relies on Windows Active Directory credentials for single sign-on access, the minimum password length is not being correctly enforced at the network level.</p>	<p>Weaknesses in password controls increase the risk of an unauthorised user gaining access to systems and/or data either by repeated attempts at password guessing or through inappropriate access privileges.</p>	<p>We recommend management consider reviewing the password policy on the network and enforce password configurations in line with the organisations password policy.</p>	<p>WDC is currently working through changing all users passwords to meet the requirements;</p> <ul style="list-style-type: none">- Renewed once every 90 days;- Minimum 8 characters;- Minimum one upper case;- Minimum one lower case- Minimum one special character; and- Minimum one number
<p>Large number of vendor support staff have access to the database (New)</p> <p>Upon review of authentication controls for the WDC production database, we found that a large number of MagiQ support staff (45 users) have SSH access, which potentially allows them to directly alter the database schema.</p>	<p>Where third party users have inappropriate access to the database, there is an increased likelihood of theft, damage, copying, viewing or public disclosure of sensitive information. This could result in disruption of business processes, legal or financial penalties and could expose WDC to the risk of reputational losses arising from the erosion of customer and/or vendor confidence.</p>	<p>We recommend that management should conduct a thorough periodic review of user access with MagiQ Software to limit the number of accounts with SSH access to the WDC production database. This review should ensure that access is granted only to those users who require it for their roles, thereby minimizing the risk of unauthorized alterations to the database schema.</p>	<p>The number of MagiQ support team with access has been reduced to 3 from 20.</p>



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