



Report to the Council on the audit of

Auckland Council Group's

Long Term Plan for the period
1 July 2018 to 30 June 2028

Report to the Council

We have completed the audit of the Auckland Council Group (the Council) Long Term Plan for the period 1 July 2018 to 30 June 2028. This report sets out our findings from the audit, and where appropriate, makes recommendations for improvement.

For further background information please also refer to the management report issued following the completion of the Consultation Document phase of the audit, dated 4 May 2018.

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Key messages

The Local Government Act 2002 requires local authorities to prepare a Long Term Plan (LTP) that covers a period of 10 consecutive financial years. The legislation also requires the LTP to be audited. We issued a standard audit report and Auckland Council (the Council) adopted its LTP on 28 June 2018.

You may recall that we included an emphasis of matter paragraph in our audit report on the LTP Consultation Document (CD) to draw the attention of readers to the uncertainties related to the priorities for transport related capital investment projects to be carried out during the next 10 years, and the amount of additional central government funding for transport to be able to deliver the proposed capital investment programme. We were satisfied that these uncertainties had been sufficiently addressed within the LTP and as a result no emphasis of matter was included in the LTP audit report.

As the LTP is a forecast there are inherent uncertainties around future results – actual results are likely to be different from the forecast information because anticipated events frequently do not occur as expected and the variation may be material. We do not express an opinion about whether the forecasts will be achieved and do not express an opinion on the merits of any policy content in the LTP.

The refreshed Auckland Transport Alignment Project (ATAP) report agreed with the Government marked a significant milestone for Auckland. ATAP reflects the Government's and Council's transport priorities for Auckland and provides certainty around the funding sources to be made available. The Council worked hard to reflect the ATAP outcomes in the LTP while communicating to the community the ongoing uncertainties around, amongst other things, delivery timings and industry capacity. Given the size and complexity of the programme of work to be delivered over the next 10 years we recommend that the Council puts in place an overarching governance framework that would enable:

- oversight of the whole programme across entities;
- regular and tailored reporting so that the Council and group can adapt and respond quickly to the unexpected; and
- application of project governance disciplines to support efficient and effective management of the programme.

During the LTP phase of the audit we saw more evidence of project management disciplines being utilised to manage the LTP development project. While the LTP audit is only required every three years we recommend that the centralised project management approach, application of key controls and detailed project planning disciplines continue to be developed and utilised on an ongoing basis for future LTPs, any LTP amendments and annual plans. This should embed these disciplines into business as usual and should strengthen the quality of the outcomes.



Looking forward

As a result of the additional capital projects, investment in maintaining levels of service, and rating decisions made by the Council following consultation, the forecast debt to revenue ratio is at times very close to the limit set within the financial strategy.

Whilst the financial forecasts show that debt to revenue limits will not be breached during the period of the plan the Council will need to ensure that it closely monitors its debt level to ensure that any potential breaches are appropriately managed.

Thank you

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



Greg Schollum
Deputy Auditor-General
15 August 2018

1 Our audit report

1.1 We issued a standard audit report

We issued a standard audit report on the Council's 2018 -2028 Long Term Plan (LTP) on 28 June 2018.

This meant we were satisfied that the Council's LTP meets the statutory purpose and that we did not need to draw readers' attention to anything in particular.

We found the underlying information and assumptions used to prepare the LTP provided a reasonable and supportable basis for preparation.

1.1 Unadjusted misstatements

The LTP is free from material misstatements, including omissions. However, in the course of the audit, we found certain misstatements that are individually and collectively not material to the LTP.

We discussed all misstatements that we found with management. The significant misstatements that have not been corrected are listed in Appendix 1 along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

2 Audit scope and objective

The scope of our audit engagement and our respective responsibilities are contained in our audit engagement letter dated 11 December 2017.

3 Areas of audit emphasis

During the planning stage of the audit, and our review of the content of the LTP, we identified the following key risks and issues which were areas of emphasis during our audit. In this section of the report, we comment on our findings on those matters.

3.1 Integration with central government

The release of the refreshed Auckland Transport Alignment Project (ATAP) agreed between the Council and Government in late April 2018, the consultation and finalisation of the Regional Land Transport Plan (RLTP) in May 2018, and the subsequent introduction of the regional fuel tax are significant milestones for the future development of Auckland. Finalisation of ATAP occurred very late in the LTP process. However, the LTP was informed by the decisions in this document and the RLTP and reflects the ambitious and complex nature of the agreed capital programme and the inherent uncertainties around timing. The Council has also recognised the constraints on the group's overall capacity for capex

delivery and constraints within the construction market, particularly in the short term (see also comment on relevant assumption at 4.3 below).

Our expectation going forward is that the entities within the Council Group delivering this programme of work will have in place robust project and contract management processes and governance frameworks. However, given the size and complexity of the programme of work going to be delivered over the next 10 years we recommend that the Council also puts in place an overarching governance framework that would enable:

- oversight of the whole programme across entities. This could have a membership that is wider than just the Council and group players;
- regular and tailored reporting so that the Council and group can adapt and respond quickly to the unexpected; and
- application of project governance disciplines to support efficient and effective management of the programme.

Management comment

Development of Auckland Council's 10-year Budget involved significant collaboration projects on items such as integrated transport planning and the regional fuel tax. We agree that strong governance and ongoing collaboration (both internally and externally) will be important as we deliver the plan's ambitious capital programme.

We report to the Finance and Performance Committee on the delivery of the work programmes on a quarterly basis. Council staff are looking at ways in which this reporting can be improved to better reflect the investment outcomes for Aucklanders and monitor programme delivery progress. This includes a governance group of key managers from across the council group with responsibility for delivering key components of the programme.

The council will also employ a collaborative governance approach as it delivers key parts of the 10-year Budget programme including:

- *Projects funded by the Regional Fuel Tax where the enabling legislation includes specific reporting requirements on the approved scheme.*
- *The programme of investment in the city centre with a focus on infrastructure for the America's Cup.*

3.2 Infrastructure Strategy and Financial Strategy

The financial strategy links well to the infrastructure strategy (IS). Funding constraints within the existing council policies and treasury ratio settings are well described enabling the reader to understand the need for caps on debt and how this informs interest rates and costs. Government funding together with development contributions, proceeds from the

sale of non-strategic assets and alternative funding mechanisms such as the regional fuel tax continue to broaden the Council's revenue base in order to fund planned infrastructure developments.

There is good alignment between the IS and the overall investment package described in the LTP, and this provides sufficient information on the asset environment and issues to understand the context for the key decisions to be made. In addition the IS has been updated to include sufficient information to appropriately link the key decisions made post consultation with the implications for levels of service. However, the IS looks out at least 30 years and we found that the longer term strategic options, that is those post year 10 of the LTP could be better described.

We recommend that the Council continues to develop the IS so it better supports options for longer term decision making.

Management comment

For this long-term plan some critical infrastructure funding decisions needed to be made for the first decade and therefore the focus of the infrastructure strategy was on these key near-term investment decisions.

The Council has identified further decisions and issues beyond the first decade of the Infrastructure Strategy. The strategy notes that while there is a reasonable amount of certainty about the investment in the first decade the later projects are more conceptual and likely to change in response to future needs.

The Infrastructure Strategy accepts that at this stage the timing of when these decisions will need to be made is unclear and further work is required. This work will inform future long-term plan cycles.

3.3 Assumptions

Significant forecasting assumptions and risks underlying the financial estimates are adequately outlined in the LTP. The assumptions on government funding to support ATAP and the timing of capital expenditure were updated following consultation to reflect the final position reached. We found that the assumptions are reasonable and supportable and explain the risk and potential impact of the uncertainties associated with the availability of funding and timing of deliverables.

The Financial Strategy and Planning team in conjunction with Internal Audit, Risk, Treasury and Financial Control applied adequate processes and controls in the development of the significant assumptions.

3.4 Quality of asset related forecasting information and Controls

All significant asset management plans (AMPs) either were, or will be, updated and aligned through the LTP process. We found that the Asset Management (AM) data provided a reasonable basis for planning purposes.

We understand that management is working towards ensuring that regular updates to the AMPs become part of business-as-usual rather than just being done on a three yearly basis for inclusion in the LTP. This will help to ensure the Council has access to up to date asset management information that can be used more effectively for decision making purposes and it will smooth out the three yearly update process when the LTP needs to be developed.

4 Other matters

4.1 Project management

In the management report issued following completion of the audit of the Consultation Document (CD), we highlighted the need for a centralised approach to project management to ensure that the LTP project delivery timelines were met. The Council responded positively to this feedback and during the development of the LTP the Council put in place a more centralised approach to the management of the project whereby members of the Financial Strategy and Planning team had ultimate responsibility for ensuring that information being delivered by other parts of the organisation were ready by agreed deadlines. This process worked reasonably well.

While recognising that there were a lot of changes coming through following consultation one area for improvement identified was the development of a detailed deliverables plan. During the LTP phase we liaised with management to gain an understanding of what was to be delivered for the LTP, which of the deliverables needed to be updated following consultation and the timing of when each deliverable would be ready for audit. This was a key step in helping to ensure that stakeholders (including our audit team) could meet project timelines ahead of the LTP adoption. Multiple versions of the plan were provided with very limited staggering of deliverables. We note that earlier identification of key deliverables and more planning ahead of the project execution would have helped smooth both the CD and LTP quality assurance and audit processes.

The key controls put in place by the Financial Strategy and Planning team operated effectively throughout the LTP phase of the audit, as did the inputs from the Internal Audit, Risk, Treasury and Financial Control functions within Council and the CCOs. Going forward the controls could usefully be applied to future planning rounds. Operation of controls for future LTPs, any LTP amendments and annual plan rounds should embed these into business as usual disciplines which would in turn improve the quality of planning outputs.

We recommend that the centralised project management approach, application of key controls and detailed project planning disciplines continue to be developed and utilised on an ongoing basis for future LTPs, any LTP amendments and annual plans rounds.

Management comment

Particular circumstances around change in government and the initiation of a new round of the Auckland Transport Alignment Project presented significant timing challenges for the council with its 2018-2028 long-term plan.

Improvements were made through the process particularly around project governance, version control, and the documentation of risks and controls. The project team are working to embed these improvements for future planning processes.

4.2 Legal advice

As with previous planning rounds we noted legal input into the LTP throughout the project and formal sign off on legal compliance to the Chief Executive ahead of adoption of both the CD and LTP. We understand that the legal team received external legal advice on higher risk, new or complex matters. As in previous LTP rounds we again highlight the importance of this process as a key way of ensuring that the Council is complying with all legislative requirements.

5 Matters from our audit of the LTP Consultation Document

Other than the matters noted in sections 3 and 4 above the recommendations arising from our audit of the LTP CD have been progressed by management as set out in Appendix 2.

6 Publication of the LTP on the Council's website

If the Council intends to publish the LTP electronically, please allow time for us to examine the final electronic file version of the audit report before its inclusion on your web site.

We need to ensure consistency with the paper-based documents that have been subject to audit. Changes may also be needed to parts of the audit report, for example page number references and the inclusion of additional information to readers of the electronic report.

Appendix 1: Uncorrected misstatements

Ongoing hedge accounting error

In 2014 Council made a decision to de-designate its cross currency interest rate swaps (CCIRS) and interest rate swaps (IRS) hedge accounting relationships. At that time, the group elected to release the cash flow hedge reserve and fair value hedge directly to the 2014 surplus/ (deficit) rather than over the remaining period of the hedges. This misstatement will continue to unwind and be reported in the misstatement schedule over the next few years. This was not adjusted as management believe it is not material to readers and the costs associated with maintaining accounting records and disclosures for this balance outweighs any benefit. In year one of the LTP, this results in an error as follows:

	FY19 (\$)
Debit Cash flow hedge reserve (via OCI)	6,631,403
Credit fair value loan adjustment (balance sheet)	(5,374,696)
Credit derivative fair value movement (surplus/deficit)	(1,256,707)

The error then reduces each year until 2029.

Appendix 2: Progress on Consultation Document Management Letter items

Matters that have been resolved

Recommendation	Outcome
<p>Control environment</p> <p>We recommend the draft LTP is completed in time to allow for an effective quality assurance process by the Council to ensure consistency and accuracy of information across all volumes of the LTP.</p>	<p>Despite compressed timelines to incorporate the late release of the refreshed ATAP and late adoption of the RLTP, we noted improved quality assurance across LTP drafts received.</p>
<p>Project governance and management</p> <p>We recommend that the LTP project management framework adequately formalises the project governance roles and processes.</p>	<p>The governance arrangements were formalised and strengthened. Project governance arrangements are continuing to bed in.</p>
<p>Project governance and management</p> <p>We recommend clearer project management disciplines including the management of risks, the coordination of organisational inputs and more formal reporting and accountability lines should also be put in place.</p>	<p>The LTP phase made good progress in this area. See also our finding at section 3 above.</p>
<p>Transport programme and funding</p> <p>The Council needs to be satisfied that the proposed consultation process for the RLTP/RFT complies with the requirements of section 82 of the Local Government Act 2002.</p>	<p>Council's legal team concluded on this item without exception.</p>
<p>Quality of asset-related forecasting information</p> <p>We recommend that asset management systems and plans are revised to ensure they align with the financial and non-financial forecasts and other underlying information and strategies used to develop the final LTP.</p>	<p>See also 4.4 above, Asset Management Plans either were or will be updated and aligned through the LTP process.</p>
<p>Infrastructure and financial strategies</p> <p>We recommend that the financial and infrastructure strategies are updated prior to the adoption of the LTP. The strategies should reflect the agreement reached with the Government on the levels and sources of funding for the transport programme.</p>	<p>These strategies were updated and reflect agreements reached with the Government on the levels and sources of funding for the transport programme. We have raised one other matter post the LTP audit (please refer to para 4.2).</p>

Recommendation	Outcome
<p>Infrastructure and financial strategies</p> <p>We also recommend that the Infrastructure Strategy contains additional information on the effect of funding and asset decisions on levels of service that will be provided to the community.</p>	<p>These strategies were updated accordingly. We have raised one other matter post the LTP audit (please refer to para 4.2).</p>
<p>Assumptions</p> <p>We recommend that all assumptions are reassessed at the time of preparing the final LTP forecasts, based on current environmental factors and the status of agreements at that time.</p>	<p>No issues noted through our review of updated significant assumptions.</p>
<p>Integration with Council Controlled Organisations (CCOs) and Local boards</p> <p>We recommend that arrangements for CCO Board sign-offs on LTP inputs and alignment with Statements of Intent are formally agreed ahead of time.</p>	<p>CCO board sign offs were obtained. We continue to emphasise that this is an important control over CCO budget and levels of service inputs into the Council's planning documents.</p>
<p>Rates affordability limits</p> <p>We continue to recommend all relevant rates are included in the rates limits in the interests of transparency, particularly given the Council is signalling a move towards further targeted rates.</p>	<p>This matter is resolved but will need to be monitored and re-visited should rating mechanisms change in the future.</p>
<p>Achievability of Auckland Council group's capital work programme</p> <p>We recommend the Council reassesses the reasonableness of the group capital work programme based on updated information at the time of preparing the final LTP, and consider whether assumptions and delivery forecasts remain appropriate.</p>	<p>This matter was adequately addressed and additional information was presented in the assumptions to more completely describe the associated uncertainty.</p>

Appendix 3: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit.	<p>I am responsible for expressing an independent opinion on the 2018-28 LTP and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.</p> <p>The audit of the LTP does not relieve management or the Council of its responsibilities.</p> <p>Our audit engagement letter dated 11 December 2017 contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>Our audit has been carried out in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>, the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i>, and the Auditor-General's Auditing Standards.</p>
Auditor independence	<p>I confirm that, for the audit of the Council Group's LTP for the period 1 July 2018 to 30 June 2028, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>In addition to this audit, I or my appointed auditors have carried out a range of other assurance engagements. Other than the other assurance engagements, and in exercising functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with or interests in the Council or any of its subsidiaries.</p>
Other relationships	<p>I am not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.</p> <p>I am aware of one staff member from Audit New Zealand who has accepted a position of employment with the Council Group since the end of the 2017 financial year. I am satisfied that we have appropriately mitigated any independence issue identified as a result of this relationship.</p>
Unresolved disagreements	<p>I have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the LTP. Management has not sought to influence our views on matters relevant to our audit opinion.</p>