

Audit plan

Manawatu District Council

For the year ending 30 June 2026

AUDIT NEW ZEALAND
Mana Arotake Aotearoa



Executive Summary

I am pleased to present our audit plan for the audit of Manawatu District Council for the year ending 30 June 2026. Our role as your auditor is to give an independent opinion on the Council's and the Council group's financial statements and Service Performance Information and all other information required to be audited or reported on under the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014 and the Non-Financial Performance Measures Rules 2024. We also recommend improvements we identified during the audit.

The contents of this plan provide a basis for discussion with you. We are happy to elaborate further on the matters raised. If there are additional matters that you think we should include or any matters requiring clarification, please discuss these with me.

Yours sincerely



Appointed Auditor
10 March 2026

Contents

Focus areas: Audit risks and issues	2
Group audit	6
Materiality	7
Expectations	10
Our team	13
Our audit process	14
How we manage quality	17



Focus areas: Audit risks and issues

Based on the planning work and discussions we have completed to date; we set out the main audit risks and issues in the table below. These will be the focus areas during the audit. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

Risk/issue	Our audit response
Valuation of infrastructure assets	
<p>The Council revalues its infrastructure assets held at fair value annually. We understand that the Council intends to revalue its infrastructure assets as at June 2026.</p> <p>The reasonableness of the valuation depends on the valuation method applied, the completeness and accuracy of the source data, and the appropriateness of key assumptions. Some valuations are inherently complex and involve the use of numerous data sources and key assumptions that can have significant impacts on valuations and the future depreciation expense.</p> <p>One of the key assumptions in a depreciated replacement cost valuation is the unit rate adopted for significant components. When developing the unit rates, the Council should have a documented methodology and database of cost information to support the unit rate applied in the valuation.</p> <p>The Council should ensure the scope of the valuation work is sufficient and the reasons for the movement in the valuation are documented and justified.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the valuation report to assess the objectivity and competence of the valuer and whether the requirements of accounting standard, PBE IPSAS 17, <i>Property, Plant and Equipment</i>, have been met; • obtain an understanding of and test the underlying source data used in the valuation; • perform a fair value assessment to ensure revaluated amounts are materially consistent with our expectation; • engage with the valuers as necessary when assessing the reasonableness of the assumptions and methodology used and the reasons for movements in key asset components; • review the accounting entries and the fixed asset register to ensure the values are correctly updated; and • review the appropriateness of the disclosure, including any narrative.

Risk/issue	Our audit response
<p>As a minimum, the reasons for the movement should identify and explain movements at an asset component level since the last valuation due to changes in source data (for example, lengths and volumes), unit rates and any other significant adjustments.</p> <p>Valuations prepared by a firm external to the Council should be subject to quality reviews by the valuation firm and suitably experienced members of the Council’s management team. When a valuation is completed internally this should be peer reviewed by a suitably experienced and qualified person, for example an external valuation firm would be considered appropriate.</p>	
<p>The risk of management override of internal controls</p>	
<p>There is an inherent risk of fraud in every organisation due to management override of internal controls. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and <p>evaluating any unusual or one-off transactions, including those with related parties.</p>

Risk/issue	Our audit response
Accounting for impairment, capitalisation of costs and recognition of completed assets	
<p>Impairment of property plant and equipment</p> <p>Assets are required to be assessed for indicators of impairment at each reporting date. In addition, work in progress (WIP) values on projects that span an extended period of time should be assessed regularly for impairment over the period of the project.</p> <p>Capitalisation of costs</p> <p>The Council should ensure appropriate policies and processes are in place to identify and capitalise costs that are capital in nature. This includes both direct and indirect capital costs.</p> <p>Completed projects</p> <p>The Council also needs to ensure that, as phases of a project are completed, and assets become operational, capitalisation of the WIP balance is performed in a timely manner. This will ensure that depreciation on these assets starts when the asset is complete and ready for use.</p> <p>The Council had a significant WIP balance at 30 June 2025 with a risk that some projects within the balance may have been abandoned and should be written off. The Council should analyse the aging of WIP balances by year and consider whether any old balances should be written off or impaired.</p>	<p>We will:</p> <ul style="list-style-type: none"> • assess the processes used by management to assess for impairment, including all significant WIP balances and review the analysis of WIP aging; • update our understanding of the Council policy and processes to identify and capitalise both direct and indirect capital costs; and • review management’s processes to ensure that the capitalisation of WIP costs is performed in a timely manner.

Risk/issue	Our audit response
Fair value assessment of land and buildings	
<p>For those assets carried under the valuation model that the Council does not plan to revalue, the Council needs to perform a fair value movement assessment (assessment) to determine whether there could be a material difference between the fair value and the carrying value. An assessment should:</p> <ul style="list-style-type: none"> • factor in local cost information; • utilise relevant and reliable price movement indicators; and • involve consultation with valuers, where necessary. <p>If the fair value movement of the assets, individually or in combination with other asset classes, is likely to be material, the Council will need to complete a full revaluation. If specified criteria are met, the Council may be able to undertake an index-based- revaluation.</p>	<p>We will review the reasonableness of the Council’s assessment including the appropriateness of the assumptions used in the assessment.</p>

Group audit

Our audit approach for the group is designed to obtain sufficient assurance on the group's financial statements and Service Performance Information. The assessed risks of material misstatement and our approach for each component of the group is detailed below.

We will report any significant internal control deficiencies to the Council and management of the group, and in particular, deficiencies related to:

- group-wide internal controls; or
- internal controls at each component.

Deficiencies reported may be identified by the group engagement team or brought to our attention by a component auditor.

We will also communicate any fraud identified by the group engagement team or brought to our attention by a component auditor.

Component	Our audit approach
Manawatu Community Trust	<p>I am also the component auditor of Manawatu Community Trust.</p> <p>The audit work on this component will be a full financial statement and performance report audit.</p> <p>The significant audit risk relevant to this component for the group is:</p> <ul style="list-style-type: none"> • the risk of management override of internal controls.

This table shows the work we have planned for each component where we are asking component auditors to perform work for the group audit.

Materiality

Materiality refers to information that, if omitted, misstated, or obscured, could reasonably be expected to:

- influence readers' overall understanding of the financial statements and service performance information; and
- influence readers in making decisions about the stewardship and allocation of resources or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

It is a matter of judgement whether information is material considering the surrounding circumstances and its impact. Qualitative considerations are just as important as quantitative considerations.

The Council and management needs to make their own assessment of materiality from a preparer's perspective. The Council and management should not rely on our materiality assessment as a basis for making its own judgements about the integrity of the financial statements and service performance information.

Financial statements materiality

Group Overall materiality - used for asset revaluations	\$113,740,000
Group Specific materiality - used for all other items	\$1,950,000
Group Clearly trivial threshold	\$97,500
Council Overall materiality - used for asset revaluations	\$110,500,000
Council Specific materiality - used for all other items	\$1,850,000
Council Clearly trivial threshold	\$92,500

This materiality is subject to change once the actual results for the current year are available.

We design our audit procedures to detect misstatements at a lower level than overall materiality. This takes account of the risk of cumulative misstatements and provides a safety net against the risk of undetected misstatements.

We will report all uncorrected misstatements to the Council other than those that are **clearly trivial** with no relevant qualitative considerations. Where management does not wish to correct a misstatement, we will seek written representations from the Council on the reasons why the corrections will not be made.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and Service Performance Information. We assess the effects of any detected and uncorrected misstatements, individually and in aggregate, against materiality and qualitative considerations.

Materiality for service performance information

At an overall level, we assess whether the service performance information is suitable, given your purpose and the nature of your activities, and whether the reporting allows for an informed assessment of the council's performance. In doing this, we consider whether the information is relevant, complete, reliable, neutral, and understandable.

We set materiality for service performance information at an individual measure level based on what we expect would influence readers' overall understanding, decision-making, or assessment of council's performance. We normally express this materiality as a percentage of the reported result.

Outlined below are the measures we assessed as material and our materiality for planning purposes. We will reassess this during the audit.

Material measure	Materiality
Safety of drinking water 100% compliance with requirements of the Water Services (Drinking Water Services for New Zealand) Regulations 2022.	5% of the result
Drinking water - customer satisfaction The total number of complaints received by the local authority about any of the following: (a) drinking water clarity (b) drinking water taste (c) drinking water odour (d) drinking water pressure or flow (e) continuity of supply, and (f) the local authority's response to any of these issues	8% of the result

Material measure	Materiality
expressed per 1000 connections to the local authority's networked reticulation system.	
<p>Wastewater - Discharge compliance/ management of environmental impacts</p> <p>Compliance with the territorial authority's resource consents for discharge from its sewerage system measured by the number of:</p> <p>(a) abatement notices</p> <p>(b) infringement notices</p> <p>(c) enforcement orders, and</p> <p>(d) convictions,</p> <p>received by the territorial authority in relation to those resource consents.</p>	5% of the result
<p>Wastewater - Faults are resolved in a timely manner</p> <p>Where the TA attends to sewerage overflows resulting from a blockage or other fault in the TA's sewerage system, the following median response time measured:</p> <p>- resolution time: from the time that the TA receives notification to the time that service personnel confirm resolution of the blockage or other fault.</p>	8% of the result

Material measure	Materiality
<p>Stormwater- Discharge compliance/ management of environmental impacts</p> <p>Compliance with the territorial authority's resource consents for discharge from its stormwater systems measured by the number of:</p> <p>(a) abatement notices</p> <p>(b) infringement notices</p> <p>(c) enforcement orders, and</p> <p>(d) convictions,</p> <p>received by the territorial authority in relation to those resource consents.</p>	5% of the result
<p>Roading – responsiveness to roading issues</p> <p>The percentage of customer service requests relating to roads and footpaths to which the territorial authority responds within the time frame specified in the long-term plan.</p>	8% of the result
<p>Road condition</p> <p>The average quality of ride on sealed local road network, measured by smooth travel exposure.</p>	8% of the result

Expectations

For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet. Our respective responsibilities are set out in our audit engagement letter. Your responsibilities, with appropriate assistance from management, include:

- preparing the financial statements and performance information in accordance with legal requirements and financial reporting standards;
- providing us with access to all relevant records and providing information in a timely manner;
- providing access to staff, who will provide an appropriate level of assistance;
- providing draft financial statements and performance information, including all relevant disclosures, in accordance with the agreed timetable;
- maintaining accounting and other records supporting the information in the financial statements and providing us with access to those records; and
- subjecting the annual report, financial statements, and Service Performance Information to appropriate levels of quality review before they are provided to us.

Our responsibilities include carrying out the audit, maintaining our independence, and providing you with an audit report.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We will use AuditDashboard to make these requests and for transferring files as part of the audit.

Draft financial statements and performance information

We expect that we will need to perform a detailed review of three versions of the annual report:

- A good quality draft set of financial statements and performance information (including notes) that is reasonably complete, received before or at the start of the final audit visit.
- A final set of financial statements and performance information incorporating all changes identified during the audit, received at the end of the audit.
- A final signed annual report or printers proof version.

We do not intend performing a detailed check of additional versions. If this becomes necessary, we will discuss this with you first and there will be an additional cost.

Year-end processes

The year-end financial statement close process and the preparation of the annual report require significant time and effort to complete them effectively. We want the audit process to run smoothly, and we

will work with management to achieve this through bringing forward the timing of audit procedures.

Bringing forward audit procedures

A lot of audit work is traditionally performed after the financial year-end. Where possible, we will aim to bring audit procedures earlier in the year. This will be focused on year-to-date transactions for revenue and expenditure, revaluations of PPE. Completion of these tests earlier in the year enables more timely identification and resolution of errors and reduces the time your management needs to support the audit process at year-end, when the annual report is being prepared.

We will work with management to ensure the required information is available at the right time. We will communicate with management if information is not available as agreed, including any impact on the year-end audit.

Timetable

Our proposed timetable is:

First interim audit	23 February 2026
Second interim audit	16 March 2026
Prefinal audit	22 June 2026
Revaluation audit	24 August 2026
Available for audit - Draft financial statements and Service Performance Information (including notes) with actual year-end figures, trial balance and transaction listing	7 September 2026
Final audit begins	14 September 2026
Final financial statements and Service Performance Information available, incorporating all agreed amendments	13 October 2026
Verbal audit clearance given	22 October 2026
Report to the Council issued	29 October 2026
Audit opinion issued	30 October 2026

Reporting

Communication with the Council and management

We will meet with the Council and management throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

Meeting with	Planned timing
Mayor	March 2026
Chair – Audit and Risk Committee	March 2026
Chief Executive	March 2026
GM Infrastructure	March 2026
GM People and Corporate	March 2026
GM Community	March 2026
Chief Financial Officer	March 2026

Reports to the Council

At the end of the audit, we will report to the Council on:

- our findings on the audit risks identified in this plan;
- any other significant matters found during our audit, including significant deficiencies in internal controls;

- the level of prudence in key judgements made by management in preparing the financial statements; and
- the quality and timeliness of information provided for audit by management.

At our discretion, we may also provide an interim report to the Council and separate reports to management on less significant findings arising from our audit. We will advise the Council if we issue a report to management.

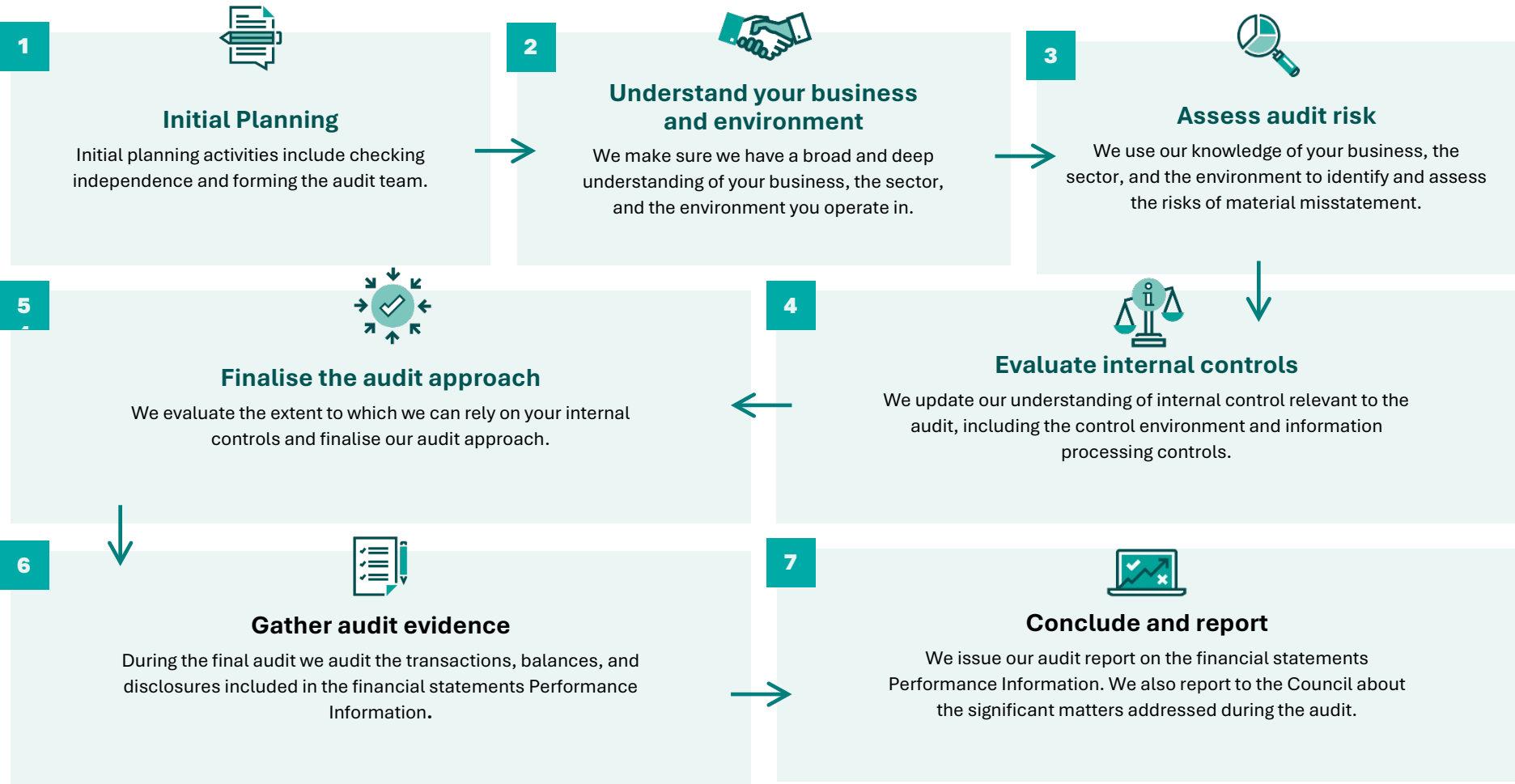
Our team

Our engagement team is selected to ensure we have the right subject-matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Our senior audit team members are:

Debbie Perera	Appointed Auditor
Bilal Ahmad	Audit Manager
Haris Naushahi	Supervisor
Thembi Mpofu	Information Systems Audit and Assurance

Our audit process



Fraud risks

Misstatements in the financial statements and Performance Information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. Our consideration of fraud risk covers both misstatements resulting from fraudulent reporting and misstatements resulting from misappropriation of assets.

Your responsibility

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management.

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and Service Performance Information are free from material misstatement, including any resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform audit testing to address the risks identified; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.parliament.nz/reports/fraud-reports.

Professional judgement and professional scepticism

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mindset that leads to a questioning approach when considering information and forming conclusions. It means not accepting information at face value, being alert for inconsistencies or anomalies, and considering the possibility of fraud or error.

Exercising professional scepticism means that we will not accept everything you tell us at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgments and assumptions and weigh them against alternative possibilities.

It also means we do not assume that what was true last year remains true this year. Because of this, the audit team will ask management some of the same questions we asked last year. Circumstances can change, information can become outdated, and our audit evidence needs to be current.

Wider public sector considerations

A public sector audit also examines whether:

- A public entity carries out its activities effectively and efficiently;
- waste is occurring or likely to occur because of any act or failure to act by a public entity;
- there is any sign or appearance of a lack of probity because of any act or omission by a public entity or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence because of any act or omission by a public entity or by one or more of its members, office holders, or employees.

How we manage quality



We apply a risk-based approach to designing, implementing, and operating the components of our system of quality management (SOQM) in an interconnected and coordinated manner to proactively manage the quality of our audits.

Quality objectives

Quality objectives are the desired outcomes for each component of the SOQM.

Audit quality encompasses the key elements that create an environment which maximises the likelihood that we perform quality audits on a consistent basis. Audit quality is about more than issuing the right audit opinion, it is also about how we reach that opinion. We maintain a persistent focus on audit quality and on continuing improvement to audit quality over time.

Quality objective	What this involves
Governance and leadership	Establishing an environment that supports the system of quality management.
Relevant ethical requirements	All staff understand and fulfil their responsibilities regarding ethical requirements.
Acceptance and continuance	Making judgments about accepting or continuing engagements and our ability to perform each engagement.
Engagement performance	Performing a quality engagement, including directing and supervising the team, exercising professional judgment, consulting on difficult or contentious matters, and ensuring appropriate engagement documentation.
Resources	Having sufficient and appropriate human, technological, and intellectual resources.
Information and communication	Maintaining and communicating information regarding the quality management system both internally and externally.

Risk identification and key responses included in our SOQM

We perform an annual risk assessment to identify any risks to achieving our quality objectives. We then implement responses to address these risks. The combination of responses ranges from specific controls to developing policies and procedures for our audit teams. Some of these operate at a firm level, while others are applied to each individual audit.

Of these numerous responses, there are two notable responses that we would like to share as examples:

Independence

Our independence and conflicts of interest policy require all employees to be scrupulous about identifying and managing any conflicts of interest or independence risks. We manage this through our ethics and independence declarations for every staff member, including a compulsory annual review, supplemented by individual independence declarations for each engagement.

Internal and external inspections

All our Appointed Auditors are subject to internal and external inspections on a cyclical basis to ensure that our engagements comply with standards. The Office of the Auditor-General, the Financial Markets Authority, and the New Zealand Institute of Chartered Accountants perform the external inspections. We perform a root cause analysis on selected findings from these

reviews and develop action plans to address the identified root causes.

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