



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

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EXTRAORDINARY COUNCIL

Open Attachments (Under separate cover 1)

Meeting Date: Thursday 9 October 2025

Time: 9.30am (Adopt Annual Report & PDP)

Venue: Ocean Suite
East Pier Hotel
50 Nelson Quay
Ahuriri
Napier

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Report to the Council

on the audit of
Napier City Council

For the year ended 30 June 2025

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Our audit report

We intend issuing an unmodified audit report

We intend issuing a qualified audit report on 9 October 2025.

The audit report was qualified due to limitations over the accuracy of fault response times for each of the three waters performance measures.

Excluding these measures, we are satisfied that the financial statements and statement of service performance fairly present the Council's activity for the year and its financial position at year end.

Without further modifying our opinion, we intend to include an emphasis of matter paragraph to draw attention to the disclosure in the statement of service performance outlining the inherent uncertainty in the future of water service delivery.

Finalisation of the audit report is subject to:

- receiving signed financial statements and representation letter;
- completing final director and manager review; and
- completing our review of the final version of the annual report once received.

We will confirm completion of our procedures at the Council meeting on 9 October 2025.

Corrected and uncorrected misstatements

We have discussed all misstatements identified with management, other than those which were clearly trivial.

Uncorrected misstatements are listed in the representation letter. We are satisfied that these are individually and collectively immaterial.

We also identified misstatements that were corrected by management.

Other reports issued

This report sets out all matters we consider relevant for the audit committee in approving the financial statements for signing.

In addition to this report, we will provide a separate report to management outlining all findings and recommendations.

Thank you

We would like to thank the Board, management, and staff for the assistance they provided during the audit.



Debbie Perera
Appointed Auditor
7 October 2025



Focus areas from the Audit Plan

Focus area	Outcome
Valuation of infrastructure assets	
Council revalued its restricted assets as at 30 June 2025. There is a risk that the valuation does not appropriately reflect fair value.	<p>We completed our testing and engaged with the valuer. We are satisfied that the financial statements appropriately reflect fair value.</p> <p>\$9.1 million of additions and \$28.3 million of existing assets were excluded from the valuation in error. These have been corrected.</p>
Fair value assessment of infrastructure assets (non-revaluation year)	
Council periodically revalues its property, plant and equipment. There is a risk that the carrying amount is materially different from fair value requiring a revaluation.	<p>We tested management's assessment and are satisfied that the difference is not material, and the property, plant and equipment are fairly stated in the financial statements.</p> <p>We noted that the roading valuer is also Council's primary contractor, which presents an independence risk. Council should consider mitigation strategies, such as peer review. The three waters valuation applied assumptions averaged across multiple councils. Council should assess whether this approach appropriately reflects its own circumstances.</p>
Valuation of investment property	
Council revalued its investment property as at 30 June 2025. There is a risk that the valuation does not appropriately reflect fair value.	<p>We completed our testing and engaged with the valuer. We are satisfied that the financial statements appropriately reflect fair value.</p> <p>The valuation approach changed this year to a blended method using both direct sales comparison and discounted cash flow techniques. This required additional audit effort.</p>

Focus area	Outcome
Accounting for impairment, capitalisation of costs and recognition of completed assets	
Council manages a significant capital programme. Judgement is required in accounting for projects completed or in progress at balance date, and in assessing whether assets are impaired.	<p>We reviewed the accounting treatment and are satisfied that asset additions and work in progress are appropriately reflected.</p> <p>We identified issues with asset management systems, including missing roading components of vested assets and outdated depreciation rates. Council should regularly reconcile the fixed asset register with asset systems and update depreciation rates following revaluations.</p> <p>In addition, some assets with zero net book value remain in use. Council should review useful lives annually to ensure depreciation reflects actual asset usage.</p>
Organisation redesign, and other changes	
<p>Council announced a phased organisation redesign to align with strategic priorities, respond to financial pressures and reforms, and reduce the rates burden.</p> <p>Key decisions affecting group structure, assets, and service delivery are underway.</p>	<p>We reviewed the accounting treatment and are satisfied that all required adjustments and disclosures have been made.</p> <p>This includes a provision for restructuring and post-balance date disclosures for the establishment of Ahuriri Investment Management Limited and Local Waters Done Well. Other decisions, such as exiting social housing and future plans for the National Aquarium of New Zealand, were not sufficiently developed to require adjustment.</p>
The risk of management override of internal controls	
There is an inherent risk in every organisation of fraud resulting from management override of internal controls.	We completed testing to address this risk and did not identify any matters that we need to bring to your attention.

Other matters identified during the audit



Matters identified	Outcome
Material prior period adjustments	
<p>During this year's audit we identified that:</p> <ul style="list-style-type: none"> The 2024 financial statements omitted future minimum lease payments for ground lease investment properties, understating commitments by approximately \$21 million. Depreciation rates for roading assets were not updated following annual valuations, resulting in a cumulative understatement of depreciation of approximately \$10 million across 2023 and 2024. Financial prudence benchmarks were calculated using incorrect definitions, materially affecting results across multiple years — including a 24-percentage point increase in the Balanced Budget benchmark for 2021/22. 	<p>The comparatives in relation to these matters were corrected in the 2025 financial statements. These matters were treated correctly in the current year.</p>
Rates compliance with Local Government Rating Act 2002	
<p>We identified variances and presentation issues in the rates resolution and Funding Impact Statement for 2025 and 2026, including inconsistencies in land and capital value-based rates, incorrect GST treatment of water-by-meter charges, and a typographical error in the refuse collection rate.</p>	<p>Council obtained legal advice confirming technical non-compliance with section 23 of the Local Government Rating Act 2002. However, the errors were minor and did not disadvantage ratepayers, as the correct rates were assessed and collected. We recommend Council continue strengthening its internal review processes to ensure future rating documentation is accurate.</p>
Fault response time performance measures for the three waters	
<p>The audit report will be qualified due to limitations in the accuracy of fault response time data.</p>	<p>These issues remain unresolved, and we were unable to obtain sufficient assurance over the reported performance measures.</p>

Matters identified	Outcome
The system used to record attendance and resolution times did not produce reliable results, and delays in logging faults contributed to further inaccuracies.	
Local Water Done Well programme	
The Local Government (Water Services Preliminary Arrangements) Act 2024 established a variety of requirements that Council needs to meet. A further Local Government Water Services Bill is expected to be introduced to Parliament before December 2025, detailing changes to water service delivery and regulation.	Council has disclosed its proposal for a jointly owned regional Council Controlled Organisation model for water service delivery, which is currently with the Secretary of Local Government for approval. We will continue to monitor developments and Council's response.
Incomplete councillors' interests register	
We noted that the councillors and senior management interest registers are not always complete and up to date. This creates a risk of a conflict or a perceived conflict occurring and not being appropriately managed.	The process relies on councillors and senior management disclosing their interests completely and accurately. We encourage full declarations and regular updates to the registers.
GST not claimed on property purchases	
Council did not claim GST input tax credits on certain property purchases following Cyclone Gabrielle. This included land acquired from a non-registered seller and residential land incorrectly treated as zero-rated. The potential GST impact is approximately \$200,000.	Council should review the GST treatment of property acquisitions to ensure eligible claims are made and errors corrected.

Financial statements and service performance information



Judgements made in significant accounting estimates

Judgement areas	Misstated	Cautious	Balanced	Optimistic	Misstated
Restricted asset valuation (\$8.2m)					
Investment property valuation (\$9.1m)					
Useful economic lives of property, plant and equipment (\$47.3m)					
Impairment of property, plant and equipment (\$27k)					
Employee benefit liabilities (\$7.3m)					

These are our views on the level of prudence in key judgements in this year’s financial statements, relating to accounting estimates.

Commentary

The judgements made in accounting policies are based on inputs from independent valuers, management forecasts, historical data, and other factors considered reasonable in the circumstances. These estimates and assumptions are reviewed regularly. Overall, we found the judgements applied in significant accounting estimates to be balanced.

We rated the useful economic lives of property, plant and equipment as cautious. Useful lives are not consistently updated following revaluations, and a number of assets remain in use despite being fully depreciated or having extended lives post-revaluation.

We also rated the valuation of restricted assets as cautious. The land sales used for comparison were limited, with the most relevant transactions dating back to 2002 and requiring adjustments to reflect current market conditions.

Quality and timeliness of information provided for audit

The Council's responsibilities include understanding whether management produce quality information, and whether there are

adequate resources, skills, and expertise applied in the reporting process. Our expectations were informed by the FMA's *Audit Quality Monitoring Report* (expectations for directors) and *Guidance and expectations for keeping proper accounting records*.

Expectation	Grading	Reason
Financial statements prepared by management comply with accounting standards	⚠️ Acceptable	Drafts were timely, but multiple misstatements and disclosure issues were identified across five versions. Three prior period errors were also corrected during the audit.
Quality supporting financial information is prepared and available on a timely basis	⚠️ Acceptable	Information was generally well-managed, but several areas did not meet accounting or legislative requirements including severance payments, financial prudence benchmarks, lease arrangements, asset disclosures, and the recognition of vested assets.
Accounting records and supporting documentation reconcile to the financial statements	⚠️ Acceptable	Records mostly reconciled, though issues were noted with depreciation rates for roading assets, asset exclusions for the valuations, and lease calculations.
Accounting records support the accounting treatment applied by management	✅ Good	
Management prepares accounting papers for unusual or more complex transactions and estimates	✅ Good	
Governors challenge the process and the outcomes of management's judgements	✅ Good	

Expectation	Grading	Reason
Service performance reporting prepared by management complies with accounting standards	⚠️ Acceptable	Drafts were timely. A qualified opinion was issued due to unreliable fault response time data. In addition, minor disclosure deficiencies were identified.
Reported service performance agrees to supporting records	✅ Good	
Issues raised in our previous reports are addressed in a timely manner	⚠️ Acceptable	Some recommendations were addressed, but several remain outstanding.

Grading	Explanation
✅ Good	The quality and timeliness of the information was of a good standard with no significant deficiencies.
⚠️ Acceptable	Quality and timeliness were of an acceptable standard but with some minor deficiencies and room for improvement.
❗ Attention	There were numerous and/or significant deficiencies and/or delivery was significantly late.

Appendix 1 Disclosures



Our responsibilities in conducting the audit

We carried out this audit on behalf of the Controller and Auditor General. We are responsible for expressing an independent opinion on the financial statements and performance information. This responsibility arises from section 15 of the Public Audit Act 2001.

The audit of the financial statements does not relieve management or the Council of their responsibilities. Our audit engagement letter contains a detailed explanation of the responsibilities of the auditor and the Council.

Auditing standards

We carry out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity, or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining a system of internal control for detecting these matters.

Auditor independence

We confirm that, for the audit of the Napier City Council's financial statements for the year ended 30 June 2025, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, we have carried out engagements in the areas of the Council's debenture trust deed, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Council.

Fees

The audit fee for the year is \$339,900, as detailed in our Audit Proposal Letter. Other fees charged in the period are \$5,900, for annual assurance engagement for Council's Debenture Trust Deed.

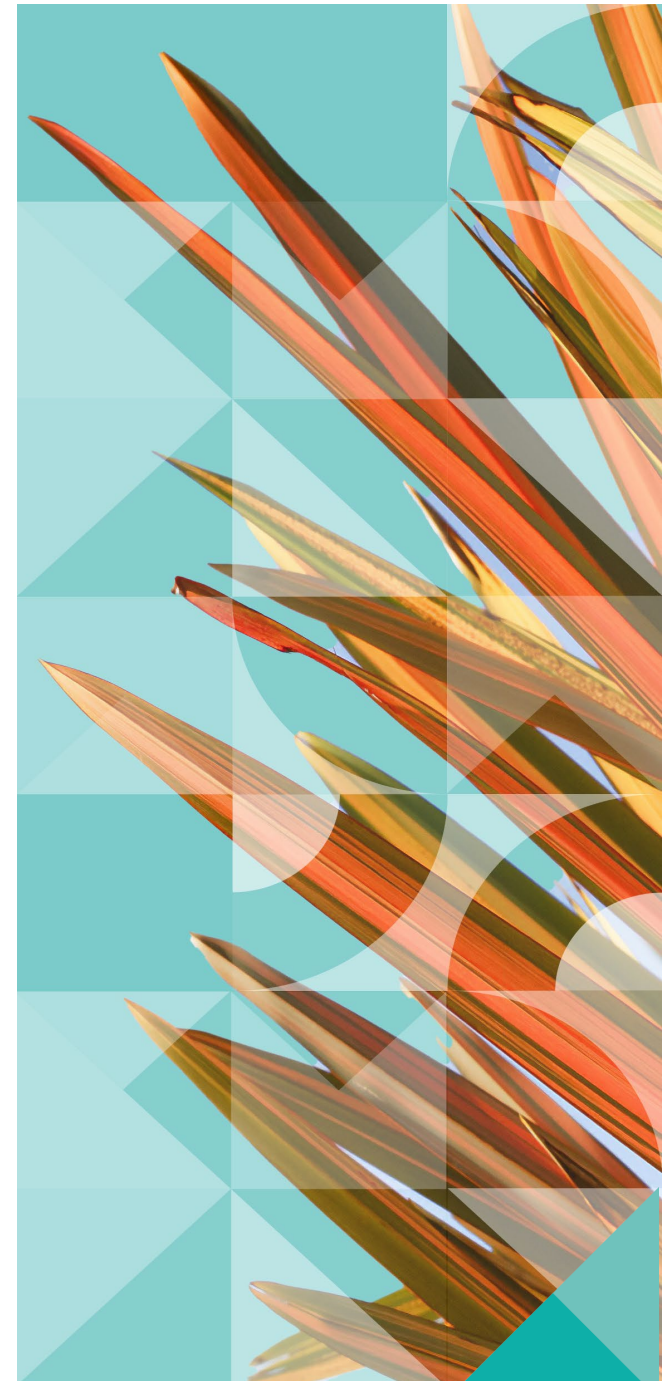
Other relationships

We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with Napier City Council that is significant to the audit.

We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with Napier City Council during or since the end of the financial year.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

www.auditnz.parliament.nz



Placeholder for Attachment 2

ITEM 1/25 Adoption of Annual Report 2024/25

Annual Report (To be circulated separately)