

The background of the entire page is a close-up photograph of fern fronds. The fronds are a vibrant green color and are arranged in a spiral pattern along their stems. The lighting is soft, highlighting the texture of the leaves and the intricate details of the frond structure.

Rotorua Lakes Council

Freshwater Improvement Fund for Lake Tarawera
Sewage Reticulation and Treatment Project

Report on Deed of Funding Clause 2.6

June 2025

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To Rotorua Lakes Council and the Ministry for the Environment

Background and Purpose

Rotorua Lakes Council has received \$6.5 million in funding from the Ministry for the Environment's Freshwater Improvement Fund, towards the Council's Lake Tarawera Sewage Reticulation and Treatment project.

As this funding amount exceeds \$1 million, the Council is required to appoint an auditor to perform certain procedures as set out in the Ministry's Review Guidance for Recipients to determine whether the Council has complied with the requirements set out in the Deed of Funding dated October 2022 for the period 1 November 2022 to 30 June 2024.

Conclusion

Based on the compliance procedures performed, we are satisfied that Rotorua Lakes Council has complied, in all material respects, with the requirements as set out in the Ministry for the Environment's Deed of Funding for the Lake Tarawera Sewage Reticulation and Treatment Project dated October 2022.

Scope

The scope of the engagement was as follows:

- To determine compliance with the terms and schedules of the Deed, specifically Clause 2.6.
- To confirm the appropriate use of the funds provided by the Ministry and any other sources.
- Any other matters raised by the Ministry in relation to the review.

Approach

Our approach was based on the MfE guidance, and included the example procedures provided by the MfE to address the following clauses in the Deed of Funding:

- Clause 2.6a: The Recipient shall ensure the grant is only used for costs that are Project Costs.
- Clause 2.6b: Ensure that expenses incurred in carrying out the Project are reasonable and in accordance with Schedule 1 (Expense Policy).
- Clause 2.6c: The Recipient shall not use any part of the Grant for Capital Costs, except with the prior written consent of the Ministry.
- Clause 2.6d: The Recipient shall account for the Grant received under this Deed in accordance with generally accepted accounting practices, with appropriate internal controls to ensure that the Grant is applied for the purposes of this Deed.
- Clause 2.6e: The Recipient shall establish, and maintain for the period of the Project, cost codes that relate specifically to all costs incurred for the purposes of this Project so that the Project Costs can be categorised and reported by their nature.
- Clause 2.6f: The Recipient shall comply with any cost policies provided by the Ministry from time to time in relation to the accounting treatment of Project Costs and use of the Grant.
- Clause 2.6g: The Recipient shall ensure that the Grant is used to fund the Project Costs or subcontractor specified in the Annual Work Plan when those costs are properly due and payable.

- Clause 2.6h: The Recipient shall follow appropriate procurement processes when buying goods or services for the project so that only reasonable, open market costs are incurred on an arm's length basis avoiding any conflict of interest. If a conflict of interest is unavoidable the conflict must be declared to the Ministry and managed appropriately by the Recipient.
- Clause 2.6i: The Recipient shall not claim for costs or expenses that have been, or will be, claimed from other sources, except as expressly provided for in this Deed.
- Clause 2.6j: The Recipient shall not claim or use any part of the Grant to support or assist activities which are political (eg. supporting a political party or movement, running a political campaign, or lobbying against the Government).

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected.

A reasonable assurance engagement does not provide assurance on whether compliance with the requirements of the Ministry for the Environment's (MfE) Deed of Funding for the Lake Tarawera Sewage Reticulation and Treatment Project dated October 2022 as evaluated against the Ministry for the Environment's Review Guidance for Recipients dated March 2023.

Third Party Reliance

We note the Statement of Compliance is prepared solely to assist the Council to meet its reporting obligations under the Ministry for the Environment's (MfE) Deed of Funding for the Lake Tarawera Sewage Reticulation and Treatment Project dated October 2022. As a result, the Statement of Compliance may not be suitable for another purpose. Our report is intended solely for Rotorua Lakes Council and the Ministry for the Environment and should not be distributed to parties other than Rotorua Lakes Council and the Ministry for the Environment.

1. Compliance procedures performed and related fundings

The following section details the procedures followed to assess compliance with the Deed of Funding, in accordance with the guidance administered. Clause 2.6 comprises of sub-clauses a - j. The testing procedures followed for each sub-clause element were as follows.

Procedures Performed

Clause 2.6a: The Recipient shall ensure the grant is only used for costs that are Project Costs.

1. Obtained the project-cost transaction extract for the period in scope and performed the following:
 - a. Confirmed the total number of project cost transactions in the period, where one line item equalled one project cost.
 - b. Selected a sample size of 158 transactions from the extract in accordance with the MfE's guidelines.
 - c. Requested copies of the relevant invoices from the recipient for each of the transactions selected in the sample.
2. Once copies of the invoices were received, performed the following:
 - a. Agreed the values of each of the invoices in the sample to the values of the project-cost transaction extract.
 - b. Confirmed the description/narration of each invoice appeared reasonable in comparison to the delivery approach and objectives of the project.

Clause 2.6a: Findings

We agreed the values of each of the invoices and the staff cost summary reports in the sample to the values per the project-cost transaction extract.

We confirmed that the description/narration of each invoice appeared reasonable in comparison to the delivery approach and objectives of the project.

No exceptions identified.

Procedures Performed

Clause 2.6b: Ensure that expenses incurred in carrying out the Project are reasonable and in accordance with Schedule 1 (Expense Policy).

1. Obtained the project-cost transaction extract for the period in scope and performed a line-by-line review of the transaction description to identify instances of expense related activity as defined in the relevant Expense Policy(ies). If expense related activity transactions existed:
 - a. Extracted the expense related line entries and selected a sample of 158 transactions for testing (all costs being initially expensed and those relating to the future capital asset to be subsequently capitalised).
 - b. Requested copies of the relevant invoices from the recipient for each of the transactions selected in the sample.
2. Once copies of the invoices were received, performed the following:
 - a. Agreed the values of each of the invoices to the values of the project-cost transaction extract.
 - b. Confirmed the values of each of the invoices did not exceed value thresholds specified in Schedule 1 (Expense Policy) relating to meal expenses and accommodation.
3. Where other expenses were recorded that are not specified in Schedule 1, confirmed the reasonableness of the expense in comparison to the delivery approach and objectives of the project.

Clause 2.6b: Findings

The MfE funding was fully applied to, and utilised by, the contract payments to Fulton Hogan, and a sample of these payments were included in our testing at Clause 2.6a above.

No exceptions identified.

Procedures Performed

Clause 2.6c: The Recipient shall not use any part of the Grant for Capital Costs, except with the prior written consent of the Ministry.

1. Obtained the project-cost transaction extract for the period in scope and performed a line-by-line review of the transaction description to identify potential instances of capital related expenditure. Potential instances include line-items relating to machinery, vehicles, IT equipment, etc.
2. Requested the capital asset register that is maintained by the recipient.
3. Confirmed the line-items from the transaction extract match to the expense type and value of capital expenditure specified in the capital asset register.
4. Confirmed the expense type and value of capital expenditure specified in the capital asset register matches to that specified in the Annual Work Plan (AWP).

Clause 2.6c: Findings

The funded project is the construction of a sewage treatment plant at Tarawera.

The MfE funding was obtained for Stage 1 of this project, being the laying of the pump line and the creation of the pump stations.

Stage 2 of the project is the installation of the onsite systems. As such, the project is still underway at the time of testing, and the costs have not yet been rolled up into a new capital asset.

The capitalisation of costs is expected to be done in July/August 2025, and will include all of the applicable cost codes recorded to the relevant funded work orders.

Procedures Performed

Clause 2.6d: The Recipient shall account for the Grant received under this Deed in accordance with generally accepted accounting practices, with appropriate internal controls to ensure that the Grant is applied for the purposes of this Deed.

1. Obtained a monies-received extract for the period in scope, a copy of all quarterly reports provided by the recipient to MfE for the period in scope, and a copy of the general ledger to which the monies received were recorded, and performed the following:
2. Selected 2 line-item transactions at random in accordance with the MfE's guidelines, and requested the relevant invoices for these. Once relevant invoices received:
 - a. Matched the values associated to each of the revenue-based invoices to the entries recorded in the appropriate revenue general ledger account.
 - b. Matched the values associated to each of the revenue-based invoices to the entries reported in the MfE quarterly reports.

Clause 2.6d: Findings

Whilst the quarterly reports to MfE did not contain any dollar values in terms of MfE monies received nor project costs incurred, the MfE Deed of Funding sets out the quarterly funding due, which we reconciled in aggregate to the invoices issued by Council to MfE.

No exceptions noted.

Clause 2.6e: The Recipient shall establish, and maintain for the period of the Project, cost codes that relate specifically to all costs incurred for the purposes of this Project so that the Project Costs can be categorised and reported by their nature.

1. Obtained the project-cost transaction extract for the period in scope.
2. Extracted all of the unique project cost codes used for the scope period and selected 2 for testing purposes.
3. Requested a cost-code report for each of the selected codes to confirm that cost codes can be reported on.
4. Obtained an extract from the recipient which showed the total amounts allocated to the cost-code for the period in scope.
5. Matched the sum of the amounts from the extract to the total amount spent per the project cost extract acquired in Clause 2.6(a) procedures.

Clause 2.6e: Findings

The Council applies specific work order codes to the costs relating to the various stages of the Project, as well as other work order codes for costs incurred that do not fall within the scope of the asset construction or the related funding.

No exceptions identified.

Procedures Performed

Clause 2.6f: The Recipient shall comply with any cost policies provided by the Ministry from time to time in relation to the accounting treatment of Project Costs and use of the Grant.

1. Requested confirmation from the appropriate MfE personnel if cost policies had been imposed by MfE for the project. If cost policies had been imposed, requested a copy be provided by MfE, and performed the following:
 - a. Reviewed the cost policies and record the recipients' obligations under the policies.
2. Discussed with the relevant recipient personnel their process(es) for ensuring each of their obligations are met and report any discrepancies if identified.

Clause 2.6f: Findings

We confirmed with Council that MfE had not imposed any particular cost policies for the project over and above the requirements already included in the funding agreement.

Clause 2.6g: The Recipient shall ensure that the Grant is used to fund the Project Costs or subcontractor specified in the Annual Work Plan when those costs are properly due and payable.

1. Obtained the project-cost transaction extract for the period in scope which included the names of each supplier related to the transactions.
2. Obtained a list of all sub-contractors used for the scope period from the recipient.
3. Summarised the transaction extract to identify all suppliers used within the scope period. Matched this list of suppliers to the list of sub-contractors provided by the recipient to confirm the sub-contractors used and the amount paid to each sub-contractor.
4. Selected 1 sub-contractor for testing purposes in accordance with the MfE guidelines, and confirmed that each of the sampled sub-contractor (or the type of contractor) is specified in the AWP.
5. Selected 5 transactions related to all sub-contractors identified in (2) in accordance with the MfE guidelines, and requested copies of the invoices related to these transaction entries.
6. Once copies of the invoices were received, confirmed that all invoices had been paid in a timely manner in line with the recipients' payment policy.

Clause 2.6g: Findings

The Council confirmed that the MfE funding was applied solely to the contract payments due to Fulton Hogan and was specified in the Annual Work Plan within the Deed of Funding.

No exceptions identified.

Procedures Performed

Clause 2.6h: The Recipient shall follow appropriate procurement processes when buying goods or services for the project so that only reasonable, open market costs are incurred on an arm's length basis avoiding any conflict of interest. If a conflict of interest is unavoidable the conflict must be declared to the Ministry and managed appropriately by the Recipient.

1. Obtained the project-cost transaction extract for the period in scope which included the names of each supplier related to the transactions, and the recipient's procurement policy.
2. Confirmed the procurement processes required to be followed for procurement activity > \$10,000 based on the recipient's procurement processes.
3. Summarised the transaction extract to identify all suppliers used within the scope period, and the amount spent on each supplier.
4. Selected all suppliers with total spend for the period > \$10,000 and select a sample size of 1 for testing purposes based on the MfE's guidelines.
5. Confirmed the process followed to engage with each of the suppliers selected is in alignment with the process specified in the procurement policy. If the recipient does not have a procurement policy, confirmed the process followed was in alignment with good practice expectations such as those established in: procurement.govt.nz
6. Requested the completed conflict of interest forms for the sampled suppliers and confirmed that all required fields in the forms have been completed.
7. Confirmed with the recipient if any conflicts have been identified. If there had been, confirmed with both the recipient and the Ministry that these have been declared.

Clause 2.6h: Findings

We confirmed that the engagement of Fulton Hogan was performed in accordance with the Procurement Policy as obtained from the website of Rotorua Lakes Council.

We did not identify any conflicts of interest pertaining to this supplier.

Clause 2.6i: The Recipient shall not claim for costs or expenses that have been, or will be, claimed from other sources, except as expressly provided for in this Deed.

1. Obtained the project-cost transaction extract for the period in scope, the monies-received extract for the period in scope (including monies received from all parties), and the proportion of project funding contribution by all parties per the Annual Work Plan (AWP), and performed the following:
 - a. Reconciled the sum of the project-cost transaction extract to the sum of the monies-received extract, and explained any variance identified.
 - b. Summed the MfE-only contributions per the monies-received extract and calculated this as a proportion of total monies-received for the period.
2. Confirmed the proportion calculated in (b) aligns with the contribution proportion per the AWP.

Clause 2.6i: Findings

See the Funding Summary in section 2 below.

Council confirmed that at the time of this engagement, no funding other than MfE funding had been invoiced or received as yet, since the Project is still in progress. This assertion was corroborated by our review of the Monies Received transactions extract.

Procedures Performed

Clause 2.6j: The Recipient shall not claim or use any part of the Grant to support or assist activities which are political (eg. supporting a political party or movement, running a political campaign, or lobbying against the Government).

1. Obtained the project-cost transaction extract for the period in scope and performed the following:
 - a. Confirmed the total number of project costs incurred, where one line item equals one project cost.
 - b. Selected a sample of 158 transactions from the extract.
 - c. Requested the relevant invoices for each of the sampled items identified.
2. Once relevant invoices received, confirmed the description and narration of each invoice did not mention political activities or similar.
3. Confirmed with the recipient that there had been no political activity related expenditure for the period in scope.

Clause 2.6j: Findings

No instances noted of political activity or similar, no exceptions identified.

Other procedures specified by MfE

There were no other procedures specified by MfE, to our knowledge.

Other procedures: Findings

Not applicable.

3 Other matters raised by the Ministry

We are not aware of any other matters raised by the Ministry at the time of this engagement.



2. Funding summary

The following section details the appropriate use of the funds provided by the Ministry and any other sources, as required by the MFE Review Guidance.

Funding Received			Funding Spent		
Party	Amount	Contribution	Expense Code	Amount	Spend %
Council's contribution	\$825,000	8.3%	Fulton Hogan Limited ** - Contractors & Agency Staff	\$9,974,737	100%
Bay of Plenty Regional Council *	\$750,000	7.5%			
Rotorua Lakes Council Debt (from Rates)	\$1,899,737	19%			
Ministry for the Environment - FIF contribution	\$6,500,000	65.2%			
Total	\$9,974,737	100%		\$9,974,737	100%

* Funding to be invoiced at completion of the project.

** Fulton Hogan costs to be rolled up into the new asset once the project is completed and the relevant costs capitalised.