



Memo: Approval for the Freshwater Improvement Fund (FIF) Audit Report for Rotorua Lakes Council's project entitled 'Lake Tarawera Sewerage Reticulation Scheme'.

To: Wes Patrick – Manager, Environmental Investments

From: Simon Ingram - Senior Investment Manager, Environmental Investments

Date: 24 July 2025

Purpose

1. To seek your approval and obtain your signature for Rotorua Lakes Council's (the Recipient) November 2022 – June 2024 Audit Report for their project entitled Lake Tarawera Sewerage Reticulation Scheme (#25760).

Background

2. The Government has committed \$100 million over 10 years through its Freshwater Improvement Fund (FIF) to improve the management of New Zealand lakes, rivers, streams, groundwater and wetlands. It supports projects with a total value of \$400,000 or more that help communities manage freshwater within environmental limits.
3. In August 2017, the Government announced \$44 million towards 33 projects around the country from the first round of the FIF.
4. Included among these was Rotorua Lakes Council's (RLC's) 'Lake Tarawera Sewage Reticulation and Treatment' project. The project will see the construction of a sewerage scheme to halt the decline of water quality in the iconic Lake Tarawera stemming from leaking septic tanks.
5. The Recipient was awarded a FIF contribution of up to \$6,500,000 (excl. GST) towards total project costs of \$14,022,000.
6. The Project was initially scheduled to begin in 2019/20; however, deed negotiations paused while RLC conducted a public consultation process that took several years to complete. Deed negotiations resumed in 2022.
7. The Deed of Funding was signed on 26 October 2022 by Nadeine Dommissie, Deputy Secretary, Policy Implementation & Delivery and was to be delivered over a maximum timeframe of 13 months with the deed expiring on 31 December 2023.

8. There have been four change management requests approved for the Deed:
- i) On 25 October 2024, an extension to 30 June 2024 was approved, due to changes to the schemes design that caused delays in implementation.
 - ii) On 17 May 2024, as part of a Partnerships and Investments Business-Unit assurance risk streamlining process with high trust partners an Audit Report for FY25/26 was replaced with a Declaration of Compliance.
 - iii) On 26 June 2024, an extension to 30 June 2025 was approved, due to delays in completing phase one of the project, namely the final commissioning of the scheme and to enable the submission of an outstanding audit report, required as a project deliverable.
 - iv) On 27 June 2025, an extension to 30 September 2025 and increase in funding to \$7.5 million (Crown) and total costs of \$16,711,350.18 to address cost overages.

Audit Report

33. As negotiated during project planning, the Deed of Funding for this project states an Audit Report to be submitted within three months of the project concluding. Due to this project taking longer than expected an agreement was reached for an audit to be completed for the period 1 November 2022 – 30 June 2024. An initial version of the audit report was submitted to the Ministry on 27 June 2025.
34. A Declaration of Compliance statement is in place, as of 26 June 2024 variation, moving forward with the project. However, the Ministry maintains the right, under Schedule 3 of the Deed of Funding, to commission an audit at its sole discretion.
35. Upon review of the initial audit report our assessment was that the audit was not carried out in accordance with our MfE audit guidance and does not provide the information we require to fully understand the level of compliance carried out by RLC. Therefore, the version was not approved and required additional details to be added to the report.
36. On 2 July 2025 we provided feedback to RLC, to be passed onto their auditors, noting the reporting requirements missing from the report:
- i) A statement about what fiscal period they have audited, I'd asked for the period covered to be 1 November 2022 – 30 June 2024
 - ii) A summary of the procedures performed to determine compliance for **each** sub-clause of Clause 2.6, such as stating the total number of transactions and sampling rate of invoices evaluated in line with our Confidence Level of 70% and a Margin of Error of 5%
 - iii) A summary of the project's grants funding and project funding from other sources (ie, the actual costs and unspent funds for the audit period)
 - iv) Any exceptions noted from the analysis of sub-clauses within Clause 2.6 and total costs.

37. At the request of the RLC's auditors we also provided a copy of an audit report template used by Grant Thornton¹ as an example of how we'd prefer the report to be presented.
38. On 10 July 2025 a second version of the audit report was received with an increased level of detail that was helpful for our understanding of the funding usage.
39. Upon reviewing the Audit Report totals and comparing them with what was reported in the Fund Management System (Tactiv), we noticed that the contributions from BOPRC and MfE aligned. However, the contributions from RLC show a discrepancy of \$4.4 million in their favour, indicating higher co-funding than initially reported.
40. On 11 July 2025, the feedback was provided to RLC, and we asked them to review their records and provide us with an explanation on why there are differences in the co-funding amounts.
41. On 18 July 2025 RLC submitted an updated version of the audit report, including an explanation that the reason for the \$4.4m variance was due to the FY25 costs being included, but these had now been removed so the audit only reflected the relevant period in scope.
42. On 24 July 2025, during a team's call between RLC (s 9(2)(a) and s 9(2)(a)) and MfE (Simon and Wes), RLC noted that a \$387,993.53 discrepancy remained compared to the Fund Management System total due to timing of invoices and accruals of when RLC's Project Manager submitted the reports compared to the recording in their system during the fiscal year change over period in July.
43. On 25 July 2025, RLC followed up on a question from the 24 July meeting regarding the \$4.4m variance (when FY25 funding was included) aligning with the Deed of Funding co-funding balance. RLC confirmed the original \$4.4m variance was due to the BDO Auditor highlighting that RLC has met the Deed co-funding expectation when including all cost incurred on stage one (had exceeded co-funding requirements). This issue was resolved by restricting the scope of the report to FY22/23 and FY23/24, and excluding FY25 costings.
44. Each audit report must be prepared by an independent auditor who is a chartered accountant. The scope of the audit must include:
 - i) Compliance with the terms of the deed, specifically clause 2.6 (the Grant);
 - ii) Appropriate use of funding and project funding from other sources; and
 - iii) Any other matters raised by the Ministry in relation to the proposed audit.
45. The audit report for FIF1021 was prepared by BDO. No other matters were raised by the Ministry in relation to the proposed audit. BDO followed the procedures to assess compliance with the Deed of Funding, in accordance with the guidance administered.

¹ Grant Thornton were ok with the reporting template being shared.

Clause 2.6 comprises of sub-clauses a – j. The testing procedures followed for each sub-clause element were as follows.

- 46. Clause 2.6a: The Recipient shall ensure the grant is only used for costs that are Project Costs.** The invoice values and staff cost summaries matched the project transaction records, and all descriptions aligned with project objectives, with no discrepancies found.
- 47. Clause 2.6b: Ensure that expenses incurred in carrying out the Project are reasonable and in accordance with Schedule 1 (Expense Policy).** BDO found 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 were identified.
- 48. 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.** MfE funding supported Stage 1 of the Tarawera sewage treatment project, which is still underway, with capitalisation of costs expected in July/August 2025 once all relevant expenses are recorded.
- 49. 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.** Although the quarterly reports to MfE lacked financial details, the funding amounts outlined in the Deed of Funding were reconciled with Council invoices, with no discrepancies found.²
- 50. 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.** The Council uses specific work order codes to separate project-related costs from unrelated expenses, with no discrepancies found.
- 51. 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.** BDO 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.
- 52. 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.** 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.

² Note, the Fund Management System and [Te Puna](#) has financial records of quarterly costs, which were used to cross-reference with the BDO report and led to our requests for additional information on 11 July 2025.

- 53. **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.** BDO confirmed that the engagement of Fulton Hogan was performed in accordance with the Procurement Policy as obtained from the website of Rotorua Lakes Council, and did not identify any conflicts of interest pertaining to this supplier.
- 54. **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.** Council confirmed that at the time of this engagement, no funding other than MfE funding had been invoiced or received yet, since the Project is still in progress. This assertion was corroborated by our review of the Monies Received transactions extract.³
- 55. **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).** No instances noted of political activity or similar, no exceptions identified.
- 56. Based on the compliance procedures performed, BDO have confirmed they were 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 Sewerage Reticulation and Treatment Project dated October 2022.

Recommendations / Actions

I recommend that you sign this memo approving the attached audit report (Appendix 1) for Rotorua Lakes Council’s ‘Lake Tarawera Sewerage Reticulation Scheme.

Yes | No | Discuss



Wes Patrick – Manager, Environmental Investments

8 August 2025

³ This information was provided on 29 July, was originally omitted in error in the report submitted on 25 July.

Appendix 1 – Audit Report

[Final report Tarawera SS MFE \(29 July\).pdf](#)

Note: Appendix 1 provided separately