The Audit Office
Te Mana Arotake

Final Report to the Risk and Assurance Committee

on the audit of
Queenstown Lakes District Council

For the year ended 30 June 2026

2026

Introduction

We are pleased to present our final report to the Risk and Assurance Committee ('Committee') for the audit of Queenstown Lakes District Council for the year ending 30 June 2026.

Our role as your auditor is to give an independent opinion on your financial statements and service performance information.

The purpose of this report is to communicate significant matters arising from the audit and to assist the Committee in its oversight of Queenstown Lakes District Council's financial reporting and service performance reporting processes. We also recommend improvements we identify during the audit.

Yours sincerely

Heidi Rautjoki
Appointed Auditor
Deloitte Limited
On behalf of the Auditor-General
24 September 2026

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A snapshot

Auditor's report

We intend to issue an unqualified opinion on the financial statements and performance information for the year ended 30 June 2026. Consistent with the prior year, we will include an emphasis of matter in relation to the QAC Lot 6 provision.

Outstanding matters

Our audit is nearly complete, subject to the following outstanding matters:

- Finalisation of review of annual report – including remaining adjustments corrected by management;
- Receipt of supporting documentation (may result in adjustments to the annual report or alteration to misstatements schedule); and
- Final quality reviews

Uncorrected audit misstatements in the financial statements

Understatement/ (overstatement)	$m	%
Operating expenses	2.94	1.0
Retained earnings	3.14	0.3
Total assets	(6.10)	(0.2)

We are satisfied that these are individually and collectively immaterial. Refer to the uncorrected misstatements section for more details

Audit focus areas

We identified

6

focus areas of most significance to the audit. Our response to these areas, as well as other matters than arose during the audit are described on pages 6 to 16

New recommendations raised

This report contains

2

new recommendations, including

0

which relate to significant internal control deficiencies.

See page 18. Other control observations will be communicated separately to management.

Materiality for the financial statements

$9.0M
Group Materiality

$6.6M
Council Materiality

Our audit procedures have been performed using a materiality set based on expenditure levels.

Our audit report

We plan to issue an unqualified audit opinion on the financial statements on 8 October 2026. Consistent with prior year we will include an emphasis of matter relating to the Queenstown Airport Corporation Limited (QAC) Lot 6 provision for the year ended 30 June 2026.

Proposed wording for the emphasis of matter is:

Emphasis of matter (Group) – Uncertainties relating to Lot 6 provision estimation

Without modifying our opinion, we draw attention to Note 14 on page 136, which outlines the significant judgement and estimation uncertainty associated with Lot 6. The Land Valuation Tribunal (LVT) has determined compensation of $44.5 million in relation to the compulsory acquisition of Lot 6. QAC has recognised the related compensation obligation based on management's best estimate of the amount required to settle the obligation. Appeals remain ongoing and the ultimate compensation payable may differ from the amounts recognised in the financial statements. As described in Note 14, management has concluded that the Land Valuation Tribunal determination does not affect the fair value of Lot 6 for financial reporting purposes.

Summary of audit focus areas

This is a summary of the most significant audit focus areas from our 2026 audit.

Areas of Audit focus	Description		Page
1 **Property, plant and equipment valuations**	We have worked closely with management and WSP to understand the process for the 3 waters valuation that was undertaken and to assess and challenge the basis and underlying inputs into the valuation.	**SR**	6
2 **Statement of service performance**	The annual report for the year ended 30 June 2026 includes a statement of service performance. Our audit opinion covers this disclosure.		8
3 **Revenue recognition - rates**	As a part of our procedures, we have performed analytics over the rates strike for FY26 and FY27. We have also considered the compliance with applicable rating legislation.		9
4 **Group audit**	As discussed further in the report, consistent with the prior year, an emphasis of matter will be included in the audit opinion in relation to QAC Lot 6.		10
5 **Management override of controls**	No instances of management override of controls or fraudulent financial reporting were identified.	**SR, R(1)**	12
6 **Audit Office audit brief**	We have disclosed further in this report some of the items highlighted by the Audit Office audit brief. We consider these matters as a part of our audit procedures.		14

Legend

M: uncorrected misstatements identified **P:** audit work still in progress **SR:** Significant risk **R (#):** recommendation raised (number of recommendations)

Audit focus areas and our findings

1 Property, plant and equipment valuations

QLDC obtains regular revaluations of infrastructure assets. A revaluation was completed for water assets as at 30 June 2026 and a carrying value assessment for roading assets. The fair value is assessed by external valuers, WSP. The revaluation assumptions are a key judgement, and the infrastructure assets represent a major component of the balance sheet of the Council and Group.

Risk description

- QLDC obtains regular revaluations of infrastructure assets. The fair value is assessed by external valuers. The revaluation assumptions are a key judgement in the current year and the infrastructure assets represent a major component of the balance sheet of the Council.
- In the current year the three waters assets are subject to a full valuation. The roading assets were last revalued in 2025 and will be assessed for any material movement in value from the 2025 valuation.
- The infrastructure assets have a value of $3.2b out of the total $3.6b of Council assets.

Action taken

For all infrastructure assets we have:

- Reconciled the fixed asset register to the general ledger;
- Reviewed the fixed asset register movements and tested a sample of additions and depreciation;
- Reviewed a sample of expensed capital items and considered the appropriateness of these; and
- Ensured the valuation movements (where applicable) have been correctly accounted for as well as verified the relevant financial statement disclosures.

For water assets subject to valuation we have:

- Reconciled the revalued opening balances to the fixed asset register at 1 July 2025;

Our findings

- The current year water assets valuation has led to a $184.8m (11%) increase in the value of the valued assets. Key movements leading to the revaluation increase include:
  - A review of the unit rate to reflect current market rates/contract rates;
  - Improvement of the database which has resulted in greater granularity in identified assets;
  - Any remaining unit rates, adjusted using appropriate and relevant indices; and
  - Revision of total useful lives.

Risk description

- The valuations completed are based on inputs which have an element of judgement. Key inputs to the valuation include:
  - Unit prices;
  - Asset condition;
  - Asset age and expected useful life; and
  - Any indicators of impairment.

Action taken

- For a sample of additions in the current year, assessed if there are significant differences between cost at recognition and valuation;
- Challenged the assessment completed by the external valuer of the assets held at depreciated replacement cost and assess the assumptions used in the valuation (such as changes in unit rates) against recent capital works and indices;
- Held discussions with the valuer and management; and
- Confirmed the external valuers are independent and have appropriate skills and competencies to undertake the valuation.

For roading assets subject to a carrying value assessment in the current year we have:

- Reconciled the carrying value to the fixed asset register;
- Challenged the assumptions by the valuer such as indexing of unit rates, overhead rates, asset useful lives and residual values; and
- Held discussions with the valuer and management; and
- Confirmed the external valuers are independent and have appropriate skills and competencies to undertake the carrying value assessment.

Our findings

- Some improvement points have been recommended by the valuer as a part of their valuation process, however none of these items would materially change the valuation.
- No other findings noted in relation to the assets subject to valuation.

We understand that management intends to revalue the water assets as a part of the 2026/27 Annual Report to enable transfer of the water assets to Alpine Water at the correct values.

2 Statement of service performance

The Council's annual report is required to include an audited Statement of Service Performance ("SSP") which reports against the performance framework included in the Long Term Plan (LTP).

Risk description

- The SSP is an important part of Council's annual performance reporting and it is important it adequately "tells the performance story" for each Group of Activities. We are to consider whether the service performance information:
  - Is based on appropriately identified elements (outcomes, impacts, outputs), performance measures, targets/results; and
  - Fairly reflects actual service performance for the year (i.e. not just reports against forecast).

Action taken

- We reviewed the Council's SSP against legislative requirements and good practice.
- This included checking consistency with the performance framework included in 2024 - 2034 LTP;
- We audited a sample of the reported performance measures, with a focus on the more significant Council activities; and
- We reviewed the narrative commentary and explanatory information provided in the annual report to ensure that this provides sufficient information to the readers i.e. "tells the performance story".

Our findings

No findings to report.

3 Revenue recognition - rates

Councils fund their operating and capital expenditure through rates as set out in the Local Government Act 2002 and the Local Government (Rating) Act 2002. Councils must consult with the community before using these powers through the long-term plan and annual plan processes. This links community consultation to the rates people are required to pay.

Risk description

- Management and Council need to continue to ensure that the requirements of the LGRA are adhered to and that there is consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the respective long-term plan (LTP) or Annual Plan (AP).
- For the audit we have rebutted the revenue fraud risk associated with a material misstatement in the financial statements. This approach is consistent within the sector, and with previous audits.

Action taken

- We have completed a 'Rates questionnaire' compiled by the Audit Office, (similar to that completed in prior years), to assess whether rates have been set correctly by Council;
- We have reviewed the meeting minutes recording the adoption of the rates resolution, considered whether the Rates are set in accordance with the revenue and financing policy as well as reviewed any other information available with regard to rates;
- We have reconciled the rates to the general ledger; and
- We have completed analytics over the rates population to test if the rates have been charged at the correct amount per the rates resolution.

Our findings

No findings to report.

4 Group audit

The Council has subsidiaries, one of which has been trading during the year (Queenstown Airport Corporation Limited ('QAC')). Accordingly, consolidated, or group, financial statements are prepared for inclusion in the annual report.

Risk description

- Heidi Rautjoki is also the appointed auditors of QAC. We perform audit procedures on the entire financial information of the component. The key areas of focus for the QAC audit are:
    - Revenue recognition
    - Fair value of property, plant and equipment
    - Resolution of acquisition of Lot 6 under compulsory acquisition
    - Statement of Service Performance
    - Audit Office airport audit brief
- It is important the Committee has an understanding of the risks affecting QAC and how they will flow into the Group financial statements.

Action taken

- Reviewed the consolidation process and ensured that all appropriate adjustments have been made;
- Reviewed final reporting to the QAC Audit Finance and Risk Committee and ensure that key areas of focus have been addressed/reported appropriately; and

  Confirmed that where the subsidiary accounting policies, measurements or disclosure are not consistent with Group policies (due to operating under different accounting frameworks, Public Sector Standards for Council and NZ IFRS For-profit standards for QAC), appropriate adjustments are made.

Our findings

In May 2026 the Land Valuation Tribunal (LVT) provided its determination of compensation payable for Lot 6 of $44.5m (inclusive of $18.34m already paid), along with use of money interest and costs. A provision has been recorded in relation to QAC's estimate of cash payments required for compensation and costs.

The LVT determination reflects a different basis of valuation from that used to determine fair value for financial reporting purposes.

Both parties have appealed the determination. With the appeal ongoing the ultimate compensation payable remains uncertain and may differ materially from the amounts recognised. on the compensation payable remains pending.

Risk description

Action taken

Our findings

Consistent with the prior year, an emphasis of matter has been included in the audit report for the QLDC Group in relation to the uncertainties relating to the Lot 6 provision estimation. This is consistent with the emphasis of matter that was included in the QAC audit report.

5 Management override of controls

Risk description

- We are required to design and perform audit procedures to respond to the risk of management's override of controls.

Action taken

- Understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements;
- Tested the appropriateness of a sample of journal entries and adjustments and made enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments;
- Reviewed accounting estimates for biases that could result in material misstatement due to fraud, including assessing whether the judgements and decisions made, even if individually reasonable, indicated a possible bias on the part of management.

Our findings

Please see below "internal control deficiencies" for our recommendation in relation to manual journal entry approval.

Risk description

Action taken

- Performed a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.
- Obtained an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Group and its environment.

Our findings

6 Audit office audit brief

Risk description

Effectiveness, efficiency, waste and probity

- Good practice involves the establishment of policies and controls to ensure that expenses have a justifiable business purpose; preserve impartiality; have been made with integrity; are moderate and conservative; have regard to the circumstances; have been made transparently; and are appropriate in all respects.

Action taken

- We are required to remain alert for issues of effectiveness and efficiency, waste, and a lack of probity or financial prudence throughout the audit. We also have:
    - Assessed policies and procedures in place for expenses and procurement processes; and
    - Tested a sample of expenses for appropriateness against good practice and other guidance issued as relevant for the Group.

Our findings

We have identified some recommendations for timeliness of employee claims which has been separately communicated in our management letter.

Some testing is outstanding at the time of this report. We will provide a verbal update at the meeting if required.

Risk description	Action taken	Our findings
	○ Our tests focused primarily on sensitive expenditure such as Council and senior management pay, travel and expenses; large contract tenders; related party transactions; and payments to offshore locations.	
<u>New Zealand Mutual Liability Riskpool Scheme</u> • Riskpool reserves the right to make further calls for additional funding as required. • As a part of the audit we will consider the adequacy of the disclosures in the financial statements relating to the New Zealand Mutual Liability Riskpool Scheme.	We have: • Understood the Council's involvement in the New Zealand Mutual Liability Riskpool Scheme and if any call for funding has been made to date; and • Review any disclosures in the financial statements relating to this matter for consistency and completeness.	No findings to report.
<u>Local Water Done Well</u> • From 1 July 2027, QLDC is to deliver water services through a 100% owned CCO, Alpine Waters. Until this date, normal service delivery continues. • Between now and 30 June 2026, Alpine Waters is in preparation phase to	We have: • Understood the current status of the Council's work towards Local Water Done Well. • Ensured there is adequate disclosure in the financial statements regarding progress to date.	We have considered if an emphasis of matter is required in the audit report due to the future change in delivery of water services. We have determined that this is not required due to the change not occurring until 1 July 2027 and due to the structure of the new water entity, there will be minimal change in

take over the responsibility for the districts water services.

the Group's reported position as a result of the change.

Internal control deficiencies

As part of our audit, we noted no significant internal control deficiencies. We believe these matters are important to assist you in considering the adequacy of your processes and controls. For further information refer to Appendix 3.

Status of control observations	Control observations at a glance			
	High	Medium	Low	Total
New audit recommendations raised through the annual audit	-	2	–	**2**
Prior year repeated findings raised again during the annual audit	-	1	–	**1**

Broader observations

Observation	Issue and Impact/Implication
Process for identification and recognition of assets **(New in FY26)**	The process for identifying, recognising, and measuring assets involves multiple Council departments, with no single process owner responsible for overseeing the asset lifecycle from identification through to recognition and measurement. The absence of clear end-to-end ownership increases the risk that assets requiring recognition may not be identified, assessed, and recorded in the financial statements in a complete and timely manner. It also increases the risk that recognised assets may not be measured in accordance with applicable financial reporting standards.
Capitalisation of internal costs (New in FY26)	Capitalisation of internal costs should be reviewed on a regular basis to ensure they remain appropriate and compliant with the requirements of IPSAS 17 Property, Plant and Equipment. The review should confirm that the expenses capitalised are based on actual costs incurred and include only those costs that meet the criteria for capitalisation. Regular reassessment also helps ensure that capitalised amounts accurately reflect the resources consumed in constructing or acquiring assets.
Approval of manual journal entries **(Existing item)**	We have identified that there is only a review of journal entries that have a value of greater than $10m. We recommend that as a best practice process journal entries below this threshold are also reviewed, especially if they are linked to an accounting estimate. We note that there are other compensating controls such as review of financial information, however best practice is to have a preventative control such as journal approval. We recommend when management move to the new accounting system, that this is considered.

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Appendix 1: Uncorrected Misstatements

During the course of our audit, we identified the uncorrected misstatements and requested that they be corrected. Management has concluded that these matters are not material after considering the size and nature of the misstatements, to either the financial statements as a whole or to the particular classes of transactions, account balance or disclosures.

The uncorrected misstatements have been included as part of Councillors letter of representation to us.

Uncorrected financial misstatements

Description	Line items affected	Revenue	Expenses	Assets	Liabilities	Equity
		Dr (Cr) $000	Dr (Cr) $000	Dr (Cr) $000	Dr (Cr) $000	Dr (Cr) $000
Overcapitalised internal costs	Retained Earnings	-	-	-	-	3,141
	Property, plant and equipment	-	-	(6,090)	-	-
	Operating Expenses	-	2,949	-	-	-
Total Council		**-**	**2,949**	**(6,090)**	**-**	**3,141**
Total Group		**-**	**2,949**	**(6,090)**	**-**	**3,141**
Prior period misstatements		**-**	**-**	**-**	**-**	**-**

Uncorrected disclosure deficiencies

Detail of disclosure deficiency	Reference
Fair Value Disclosures For fair value measurements in Level 3, a reconciliation from the beginning balances to the ending balances, is required to be disclosed.	IPSAS 30: Financial Instruments Disclosures, paragraph 3c
Revenue Disclosures The existence and amounts of any advance receipts in respect of non-exchange transactions are required to be disclosed.	IPSAS 23: Revenue From Non-Exchange Transactions, paragraph 106 (e)
Investment Property Disclosures The following is required to be disclosed: The amounts recognised in surplus or deficit for: • Rental revenue from investment property; • Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and • Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period. The methods and significant assumptions applied in determining the fair value of Investment Property.	PBE IPSAS 16: Investment Property, paragraph 86

Provision Disclosures Entities are required to disclose the following in relation to provisions • The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.	IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets, paragraph 97
Fair Value Disclosures If a class of property, plant and equipment is stated at revalued amounts, the following shall be disclosed: (c) The methods and significant assumptions applied in estimating the assets' fair values	IPSAS 17: Property, plant and equipment paragraph 92(c)
Expected credit losses An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in paragraphs 73–93 of PBE IPSAS 41. For this purpose an entity shall disclose: (a) The basis of inputs and assumptions and the estimation techniques used to: (i) Measure the 12-month and lifetime expected credit losses; (ii) Determine whether the credit risk of financial instruments has increased significantly since initial recognition; and (iii) Determine whether a financial asset is a credit-impaired financial asset. (b) How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and (c) Changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.	IPSAS 30: Financial Instruments: Disclosures paragraph 42G

Contingent Liability Unless the possibility of any outflow is remote an entity shall disclose, for each class of contingent liability as at the reporting date, a brief description of the nature of the contingent liability and, where practicable: an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow; and the possibility of any reimbursement.	IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets, paragraph 100
Property, plant and equipment The standard requires entities to disclose, for each class of property, plant and equipment, movements during the period including additions, disposals, revaluations, depreciation, impairment, and other movements.	IPSAS 17: Property, plant and equipment paragraph 88-94
Investment property A piece of land within investment property has not been disclosed as Asset Held for Sale in accordance with IFRS 5.	PBE IFRS 5 Non-current Assets Held for Sale and Discontinued Operations paragraphs 6-8 and 38
Intangible assets The standard requires entities to disclose, for each class of property, plant and equipment, movements during the period including additions, disposals, revaluations, depreciation, impairment, and other movements.	IPSAS 31: Intangible Assets paragraph 117

Appendix 2: Other communications

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 and performance information 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 and performance information. The Council and management are responsible for implementing and maintaining a system of internal control for detecting these matters.

Independence

We confirm that, for the audit of the Queenstown Lakes District Council's financial statements and performance information for the year ended 30 June 2026 (Council and Group), we have maintained our independence in accordance with the requirements of the Auditor-General standards, which incorporate the independence requirements of the External Reporting Board.

In addition to the Group audits we have carried out engagements in the areas of assurance services relating to reporting under the trust deed, a registry audit, a regulatory disclosure audit, the long term plan audit and an agreed upon procedure for sustainability linked loans, which are compatible with the independence requirements. Other than the audit, our report on the disclosure requirements, and these engagements, we have no relationship with, or interests in, the Group.

Fees

The audit fee for the year is $399,466 (GST exclusive), as detailed in our Audit Proposal Letter. Other fees charged in the period are $238,000, for the Queenstown Airport Corporation statutory audit, disclosure audit, and agreed upon procedures relating to sustainability linked loans and assurance over the Queenstown Lakes District Council debenture trust and register.

Appendix 3: Internal controls

In performing our audit of the financial statement and service performance information we considered internal controls in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements and statement of service performance.

We do not provide assurance specifically on internal controls and we are not obligated to search for these matters beyond those that come to our attention in the normal course of planning and performing the audit.

We are required to report significant deficiencies in internal control that we observe. We may also report other deficiencies or observations that we believe warrant your attention but may not report all identified matters if we do not believe they are significant or noteworthy.

Deficiencies in internal control are significant based on our judgement regarding whether they are sufficiently important to merit for the Council's attention. This judgement considers the likelihood of material misstatements, the susceptibility to loss or fraud, and the cause and frequency of exceptions and other considerations. We rate each control observation using the following criteria.

High	Deficiency/weakness in internal control (either individually or in combination with other deficiencies that requires immediate attention as it has potential to have a serious adverse effect on the entity (including the integrity of its financial and non-financial reporting).
Medium	Weakness that could adversely affect the entity if not addressed or reduce the efficiency of the entity's operations.
Low	Weakness that results in controls falling short of best practice or public sector expectations for an entity of this size and complexity.

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