



chatham islands council

Performance Audit & Risk Committee

MEETING PACK

for

PARC Meeting

Monday, 17 August 2026

11:00 am (+1245)

Held at:

Chatham Islands Council

13 Tuku Road, Chatham Islands

INDEX

Cover Page

Index

Agenda

Attached Documents:

1.2 a	Interests Register.....	6
1.3 a	Action List.....	7
2.1 a	2.1 Minutes of PARC Meeting .pdf.....	9
2.1 b	Public Minutes15 Jun 2026 PARC.pdf.....	10
3.1 a	3.1 CIC draft end of year financials 2026.pdf.....	15
3.2 a	3.2 CIC Going Concern Assessment.pdf.....	24
3.2 b	CIC going concern assessment 2026 (002).pdf.....	26
3.3 a	3.3 2026 Interim Audit Management Report.pdf.....	34
3.3 b	CIC 2026 Interim Report to Management (final) 17.7.26.pdf.....	37
4.1 a	PE Cover Page .pdf.....	48
4.2 a	PE 5.2 PE Minutes 25 June 2026.pdf.....	49
4.2 b	PE Minutes15 Jun 2026 PARC.pdf.....	50
4.3 a	PE 4.3 CE update.pdf.....	52

AGENDA

PARC MEETING



Name:	Performance Audit & Risk Committee
Date:	Monday, 17 August 2026
Time:	11:00 am to 1:00 pm (+1245)
Location:	Chatham Islands Council, 13 Tuku Road, Chatham Islands
Committee Members:	Mr Philip Jones (Committee Chair), Mayor Greg Horler, Cr Celine Gregory-Hunt, Cr Graeme Hoare, Cr Jenna Hoverd
Attendees:	Mr Bob Penter, Ms Jo Guise, Ms Tanya Clifford

1. Opening Meeting

1.1 Apologies

N/A

1.2 Interests Register

Supporting Documents:

1.2.a Interests Register	6
--------------------------	---

1.3 Action List

Supporting Documents:

1.3.a Action List	7
-------------------	---

2. Confirm Minutes

2.1 PARC meeting minutes - 15 June 2026

11:00 am (2 min)

For Decision

For the PARC to confirm the minutes from the previous meeting.

Supporting Documents:

2.1.a 2.1 Minutes of PARC Meeting .pdf	9
2.1.b Public Minutes15 Jun 2026 PARC.pdf	10

3. PARC Reports

3.1 Financial Summary for the Year

11:02 am (10 min)

For Information

For the PARC to receive the financial report to 31 May 2026.

Supporting Documents:

3.1.a	3.1 CIC draft end of year financials 2026.pdf	15
-------	---	----

3.2 Going Concern Assessment

11:12 am (10 min)

Ms Tanya Clifford

For Noting

Supporting Documents:

3.2.a	3.2 CIC Going Concern Assessment.pdf	24
3.2.b	CIC going concern assessment 2026 (002).pdf	26

3.3 2026 Audit Management Report

11:22 am (10 min)

For Noting

Supporting Documents:

3.3.a	3.3 2026 Interim Audit Management Report.pdf	34
3.3.b	CIC 2026 Interim Report to Management (final) 17.7.26.pdf	37

4. Public Excluded

4.1 Move to Public Excluded

Supporting Documents:

4.1.a	PE Cover Page .pdf	48
-------	--------------------	----

4.2 Public Excluded Minutes 25 June 2026

11:32 am (2 min)

For Decision

Supporting Documents:

4.2.a	PE 5.2 PE Minutes 25 June 2026.pdf	49
4.2.b	PE Minutes15 Jun 2026 PARC.pdf	50

4.3 Interim Chief Executive Report

11:34 am (10 min)

Mr Bob Penter

For Noting

The Chief Executive will provide a verbal update to the Committee on matters relating to Council operations, management and other matters requiring consideration in public excluded.

Supporting Documents:

4.3.a	PE 4.3 CE update.pdf	52
-------	----------------------	----

4.4 Move out of Public Excluded

5. Close Meeting

5.1 Close the meeting

Next meeting: PARC Meeting - 19 Oct 2026, 11:00 am

As there was no further business the meeting closed at 12.58pm.

Interests Register

Performance Audit & Risk Committee



As of: 17 Aug 2026

Person	Organisation	Active Interests	Notice Date
Mayor Greg Horler	Awarakau Homestay	3.3 Sensitive Expenditure - Owner of Awarakau Homestay	9 Feb 2026
Mr Bob Penter	CI Enterprise Trust	Group CE	15 Jun 2026

Action List

Performance Audit & Risk Committee



As of: 14 Aug 2026

Write formally

In Progress

Formally write to DIA requesting:

- Clear feedback from their assurance review; and
- The formal report outlining activities where DIA considers reduced levels of service could be acceptable.

Philip Jones noted this report is essential to inform the annual plan and support the auditors' going-concern assessment. The committee agreed to follow up with DIA to obtain the documentation they had indicated would be provided.

Due Date: 31 Dec 2025
Owners: Mayor Greg Horler, Mr Philip Jones
Meeting: 3 Dec 2025 PARC Meeting, 1.3 Action List

Latest Update:

Mayor and CE to schedule meeting

Ms Jo Guise | 15 Jun 2026

Insurance Report

Done

Staff to finalise insurance negotiations and pricing and bring a final recommendation to Council for approval of the insurance strategy and cover.

Due Date: 30 Jun 2026
Owners: Mr Bob Penter, Ms Mereraina Hemara
Meeting: 15 Jun 2026 PARC Meeting, 4.1 Insurance Report

Indemnity Cover Levels - Options

Done

Staff to prepare options on professional indemnity cover levels (e.g. \$10m and \$5m) and potential premium savings for future consideration.

Due Date: 31 Jul 2026
Owners: Mr Bob Penter, Ms Mereraina Hemara
Meeting: 15 Jun 2026 PARC Meeting, 4.1 Insurance Report

Latest Update:

Management took Councils directive that \$5m cover is sufficient and lowered the cover to this level.

Ms Mereraina Hemara | 24 Jul 2026

NKMR Feasibility Funding

Done

Staff to seek an extension for the Norman Kirk feasibility study lottery funding, which is due to expire in two months.

Due Date: 31 Jul 2026
Owner: Ms Mereraina Hemara
Meeting: 15 Jun 2026 PARC Meeting, 4.3 Operations Manager Report

Latest Update:

Extension has been granted till 27 February 2027.

Ms Mereraina Hemara | 24 Jul 2026



Performance, Audit and Risk

2.1 Minutes of PARC Meeting 25 June 2026

Date of meeting	17 August 2026
Agenda item number	2.1
Author/s	Jo Guise, Executive Assistant

Purpose

To present the minutes from the Performance, Audit & Risk meeting held on 25 June 2026.

Recommendations

THAT the minutes of the Performance, Audit & Risk meeting held on 25 June 2026 be received.

MINUTES (in Review)

PARC MEETING



Name:	Performance Audit & Risk Committee
Date:	Monday, 15 June 2026
Time:	11:00 am to 12:15 pm (+1245)
Location:	Chatham Islands Council, 13 Tuku Road, Chatham Islands
Committee Members:	Mr Philip Jones (Committee Chair), Mayor Greg Horler, Cr Celine Gregory-Hunt, Cr Graeme Hoare, Cr Jenna Hoverd
Attendees:	Mr Bob Penter, Ms Mereraina Hemara, Ms Jo Guise
Guests/Notes:	Matthew Meachem (Marsh)

1. Opening Meeting

1.1 Apologies

1.2 Interests Register

1.3 Action List

Due Date	Action Title	Owner(s)
31 Dec 2025	Write formally Status: In Progress	Mayor Greg Horler, Mr Philip Jones

2. Confirm Minutes

2.1 PARC Meeting Minutes 16 March 2026



PARC Meeting minutes 16 March 2026

THAT the PARC Meeting minutes 16 March 2026 be received.

Decision Date: 15 Jun 2026
Mover: Cr Celine Gregory-Hunt
Second: Mr Philip Jones
Outcome: Approved

3. Financial Report

3.1 Financial Report



Financial Report

THAT the Financial Report be received.

Decision Date: 15 Jun 2026
Mover: Cr Graeme Hoare
Second: Cr Jenna Hoverd
Outcome: Approved

The Financial Report for May was presented and noted. Tanya Clifford gave a verbal summary of key highlights -

- Actual financial performance for May was significantly better than the budgeted position for the same period.
- It was highlighted that actual expenditure was significantly below budget, largely due to reduced expenditure under the ECAN contract. While approximately \$1 million had been budgeted for services, actual expenditure was tracking at around \$500,000.
- Members noted that the reduced expenditure had a positive impact on Council's cash position and bank balance. However, it was acknowledged that there may be unintended consequences associated with reduced spending, particularly regarding the level of services being delivered to the community.
- Attention was drawn to the cash flow statement, which showed a substantially improved position compared with budget. Council had budgeted for a decrease in cash holdings of approximately \$600,000 for the year; however, current forecasts indicate an increase in cash holdings of approximately \$284,000 by year-end.
- It was noted that this improved cash position is influenced by the timing of grant-funded projects and associated expenditure obligations.
- Discussion was held regarding grant funding previously received, including the Norman Kirk and Water Tank grants. It was clarified that while the grant funds have already been received and are contributing to Council's current cash balance, there remains an obligation to either expend the funds for their intended purpose or return them if the projects do not proceed. As such, the funds represent a liability despite the favourable cash position.
- Further discussion confirmed that many projects are funded on an 88% grant-funded and 12% Council-funded basis. Members noted that if projects are delayed, Council must retain and carry forward its share of the funding to ensure it is available when project delivery occurs. It was acknowledged that careful financial management is required to maintain these commitments.
- It was noted that financial management continues to be closely monitored and operating within tight budget constraints.

4. PARC Reports

4.1 Insurance Report



Insurance Report

That the Performance, Audit and Risk Committee:

1. Receives the report, and;
2. Recommend that Council approve the proposed insurance strategy and level of cover, subject to final premium pricing being confirmed by the insurance broker prior to renewal.

Decision Date: 15 Jun 2026
Mover: Cr Jenna Hoverd
Second: Cr C  line Gregory-Hunt
Outcome: Approved

The Insurance Report was taken as read, with the Matthew Meachem providing an overview of key matters ahead of the 30 June policy renewals.

- Members were advised that Council achieved a favourable outcome in the previous year's property insurance renewal, with premiums for property assets and business interruption

cover reducing by approximately 30%, resulting in savings of around \$30,000. Premiums decreased from just under \$90,000 to below \$60,000.

- It was noted that the property insurance market remains favourable and a further modest reduction in premiums is anticipated. However, any savings may be offset by increases in insured asset values and inflationary adjustments.
- Discussion focused on Council's professional indemnity insurance, which currently provides cover of \$15 million per claim at an annual premium of approximately \$69,000.
- The broker highlighted that a significant component of Council's professional indemnity exposure relates to building consenting liability. While consenting functions are largely undertaken by Wellington City Council, the Chatham Islands Council remains the liable authority under legislation as the issuer of building consents and code compliance certificates.
- Members discussed the possibility of exploring alternative arrangements to transfer or reduce this liability exposure, as well as reviewing whether the current level of professional indemnity cover remains appropriate.
- The broker advised that options for lower levels of cover, including \$10 million and \$5 million limits, would be investigated and presented for Council's consideration. Any reduction in cover could generate premium savings but would require Council to accept a greater level of uninsured risk.
- Environmental impairment insurance was also discussed, providing cover for pollution events originating from Council-owned premises and associated clean-up or third-party liability costs.
- Further clarification was provided regarding projected insurance premiums for the coming year. Members were advised that insured property values had been increased by 2% to account for inflation; however, the broker was seeking additional rate reductions from insurers of approximately 7.5%.
- Based on current negotiations, it was anticipated that property insurance premiums may be slightly lower than the previous year despite inflationary increases in asset values. Efforts were also being made to maintain other policy premiums at current levels.
- It was agreed that the report be received and that a final insurance proposal be brought to Council once renewal negotiations had been completed and final pricing confirmed.



Insurance Report

Staff to finalise insurance negotiations and pricing and bring a final recommendation to Council for approval of the insurance strategy and cover.

Due Date: 30 Jun 2026

Owners: Mr Bob Pentter, Ms Mereraina Hemara



Indemnity Cover Levels - Options

Staff to prepare options on professional indemnity cover levels (e.g. \$10m and \$5m) and potential premium savings for future consideration.

Due Date: 31 Jul 2026

Owners: Mr Bob Pentter, Ms Mereraina Hemara

4.2 Draft CIC Conflicts of Interest Policy (Staff)



Draft CIC Conflicts of Interest Policy 2026

That the Performance, Audit and Risk Committee:

1. Recommends the CIC Conflicts of Interest policy (Staff) to Council for adoption.

Decision Date: 15 Jun 2026
Mover: Mayor Greg Horler
Second: Cr Graeme Hoare
Outcome: Approved

4.3 Operations Manager Report



Operations Manager Report

That the Performance, Audit and Risk Committee:

1. Receives the report.

Decision Date: 15 Jun 2026
Mover: Cr Jenna Hoverd
Second: Cr Celine Gregory-Hunt
Outcome: Approved

Ms Mereraina Hemara provided a verbal update to the report advising that Council's longest-serving tenant had given notice to vacate their property. Applications for the tenancy had been opened and there had been strong interest from prospective tenants.

The report also included the first bi-annual Grants and Projects Update, in accordance with the recently adopted Grants and Donations Policy. The update detailed grant funding received, expenditure to date, remaining balances, and funding expiry dates.

Members noted that the grants register provides a useful oversight tool and highlighted the importance of monitoring grant-funded projects to ensure funding conditions are met and funds are expended within required timeframes.

A potential risk was identified regarding the Norman Kirk feasibility study funding, which is due to expire within the next two months. The Operations Manager advised that discussions had commenced with the funding provider to seek an extension and noted that Council has a positive history with the funder. It was considered unlikely that an extension request would be declined.

The Committee noted the report and the importance of ongoing monitoring of grant obligations and project delivery timelines.



NKMR Feasibility Funding

Staff to seek an extension for the Norman Kirk feasibility study lottery funding, which is due to expire in two months.

Due Date: 31 Jul 2026
Owner: Ms Mereraina Hemara

5. Public Excluded

5.1 Move to Public Excluded



Move to Public Excluded

THAT the public be excluded from the following part of the proceedings of the meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for

the passing of
this resolution are as follows:

Item No.	Minutes / Report of:	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
PE 5.2	Chief Executive Officer	PE PARC Minutes 16 March 2026	Good reason to withhold exists under Section 7	Section 48(1)(a)
PE 5.3	Chief Executive Officer	CE Update	Good reason to withhold exists under Section 7	Section 48(1)(a)

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987, and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by holding the whole or relevant part of the proceedings of the meeting in public, are as follows:

ITEM NO.	GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	SECTION	SUBCLAUSE AND REASON
PE 5.2	PE PARC Minutes 16 March 2026	7(2)(b)(ii) 7(2)(h) 7(2)(i)	Would be likely to prejudice the commercial position of the person or persons who are the subject of the information. To maintain legal professional privilege. To enable the Council holding the information to carry out, without prejudice or disadvantage, commercial activities.
PE 5.3	CE Update	7(2)(b)(ii) 7(2)(h) 7(2)(i)	Would be likely to prejudice the commercial position of the person or persons who are the subject of the information. To maintain legal professional privilege. To enable the Council holding the information to carry out, without prejudice or disadvantage, commercial activities.

and that appropriate officers remain in the meeting to assist members.

Decision Date: 15 Jun 2026
Mover: Cr Jenna Hoverd
Seconder: Cr Graeme Hoare
Outcome: Approved



Performance, Audit & Risk Committee

3.1 Financial Report - draft financial statements for the year ended 30 June 2026

Date of meeting	17 August 2026
Agenda item number	3.1
Author/s	Tanya Clifford, corporate reporting accountant

Purpose

To present the draft financial statements for the year ended 30 June 2026 and provide PARC with an overview of the key financial results, financial position, and strategic risks facing the Council.

The draft financial statements will form part of the 2026 Annual Report and remain subject to completion of the external audit process and any resulting adjustments.

Recommendations

That PARC:

- 1. Receives the draft Financial Statements for the year ended 30 June 2026.**
- 2. Notes that the financial information presented is draft and unaudited and remains subject to further financial review and potential audit adjustments prior to adoption of the final audited financial statements.**

Background

The draft financial statements have been prepared for PARC review prior to completion of the external audit process for adoption prior to 31 October 2026. The draft financial statements comprise:

- Statement of Comprehensive Revenue and Expense;
- Statement of Changes in Equity;
- Statement of Financial Position; and
- Statement of Cash Flows.

All figures are preliminary and may be adjusted following completion of year-end financial review procedures and external audit.

Financial performance summary

Council recorded a draft operating surplus of \$2.17 million, which is \$736,000 ahead of budget and significantly stronger than the prior year surplus of \$871,000.

While revenue remained broadly consistent with prior years, the favourable result was achieved largely through expenditure restraint. Council entered the year facing a constrained financial position and a risk of exceeding its approved overdraft limit. As a result, management implemented measures to reduce expenditure across a number of activities.

This approach has successfully improved Council's short-term financial position and cash reserves. However, there is a risk that some expenditure reductions may have consequences for service delivery and performance outcomes. Several performance measures relating to regional council activities are now unlikely to be achieved and this will be reflected within the Annual Report.

Council should therefore view the surplus as evidence of difficult funding and service prioritisation decisions made during the year rather than purely a positive financial result.

Revenue trends:

Total revenue for the year was \$11.36 million, compared with a budget of \$11.76 million and \$11.58 million in 2024/25. Revenue remained largely consistent with the previous year.

Grant revenue was below budget, reflecting lower than anticipated funding support during the year. Given historical funding received through Better Off Funding and growing obligations arising from Local Water Done Well reforms, higher levels of external support had been anticipated. The lower grant funding highlights an ongoing risk for Council. Future financial planning assumes that external funding opportunities will continue to be available; however, there is increasing uncertainty around the level and nature of future Crown support.

Encouragingly, lower grant revenue was partially offset by stronger than expected revenue from user fees, charges and other income streams, demonstrating some diversification of revenue sources for Council.

An important consideration when assessing the operating result is that approximately \$550,000 of grant funding has already been received in cash but relates to projects that are not yet complete. These projects include: Norman Kirk seed funding and feasibility work; water tank works; and Tourism Infrastructure Fund projects. While these funds improve Council's current cash balance, they do not represent unrestricted funds available for general use. Council remains obligated to either:

- Complete the relevant projects and incur the associated expenditure; or
- Return funding where project requirements are not met.

This represents a future call on cash reserves and should be a consideration when assessing Council's available liquidity.

Expenditure trends:

Total expenditure was \$9.19 million, compared with a budget of \$10.46 million, resulting in favourable expenditure variances of approximately \$1.26 million.

Council commenced the year in a difficult position, needing to make additional savings compared with budget to ensure the Council did not exceed its bank overdraft level of \$500,000 by year end. Council has managed to achieve this result primarily by reducing expenditure on regional council activities. Noting also that minor savings occurred over several overhead activities including insurance, travel and payroll. While this has resulted in a healthier bank balance, it may result in some unintended consequences reflective of reduced service levels.

Financial Position summary

Council's reported net assets increased from \$99.4 million to \$110.8 million during the year. While this is a significant increase, it is important to recognise that most of the movement relates to asset revaluation gains rather than improved operational performance.

The revaluation of infrastructure assets resulted in a \$9.22 million increase in reserves. An asset revaluation is budgeted to occur every five years, but due to high levels of fluctuation in infrastructural indexes and audit pressure, a revaluation occurred this year, one year before budget, meaning there will be some timing differences related between actual and budget for some balances.

Accordingly, while the balance sheet has strengthened, the increase has not generated any additional cash, nor does it lessen the future requirement to renew, maintain, or replace Council's ageing infrastructure.

Cash position:

Council closed the year with cash and cash equivalents of \$747,000, compared with \$237,000 at the same time last year.

Importantly, the Annual Plan had forecast a year-end overdraft position of \$510,000, meaning the actual result represents a considerable improvement on expectations. This outcome reflects:

- Reduced operating expenditure compared with budget;
- Lower-than-budgeted capital spending;
- Grant projects funding received in advance; and
- Reduced creditor balances.

While encouraging, Council should remain cautious when interpreting the cash position due to the previously noted grant-funded projects that remain incomplete. Once those project commitments are delivered, the available cash balance will reduce accordingly.

Receivables:

Receivables increased from \$639,000 to \$736,000. Although not currently considered significant, the increasing level of debtor balances warrants monitoring.

Collectability of outstanding balances, including rates receivables, remains an area where Council may wish to focus additional effort during 2026/27. In a constrained economic environment, outstanding debts can become increasingly difficult to recover and may eventually require impairment or write-off.

Property, equipment and intangible assets:

Property, infrastructure and intangible assets increased from \$100.0 million to \$110.0 million. The increase primarily reflects the asset revaluation rather than significant new capital investment. Most of the capital expenditure relates to roading works as part of the NZTA approved roading programme.

Of more strategic importance are the observations arising from the valuation process. The valuation identified ongoing concerns regarding ageing infrastructure, particularly within water and wastewater networks.

This reinforces an issue that has been highlighted in previous Long-Term Plan discussions that Council's infrastructure replacement requirements are continuing to grow while funding capacity remains constrained. Without additional investment, there is a risk of:

- Increased asset failures;
- Higher maintenance costs;
- Reduced levels of service; and
- Greater difficulty achieving future regulatory compliance standards.

Other assets:

The investment in associate remains recorded at \$131,000. The valuation has not yet been updated for the current financial year for the Council's share of the housing trust but is expected to reduce further once updated information becomes available. The associate continues to face challenges relating to building contract termination issues and construction quality matters. These matters may impact the future recoverability of Council's investment.

Funds held in trust of \$345,000 relate to funding to be made available to Norman Kirk, this money has been separated from Council funds.

Other liabilities:

Total liabilities reduced to \$1.13 million, compared with \$1.93 million in the previous year and \$2.20 million budgeted. Key movements included:

- Current liabilities reduced from \$1.84 million to \$1.04 million.
- Payables reduced by approximately \$799,000. This is likely reflective of Council's reduced expenditure approach.
- No bank overdraft was required at year end despite a budgeted overdraft position of \$510,000.

- Long-term liabilities remained stable at approximately \$89,000. The balance primarily relates to a suspensory housing loan, which requires repayment if certain conditions have not been met. This loan expires in 2029, where it will be transferred to revenue, the cash balance has already been received.

The reduction in liabilities has strengthened Council's liquidity and overall financial sustainability.

Cash flow performance summary

Council generated a net increase in cash of \$508,000 during 2025/26. This compares favourably to the Annual Plan, which forecast a decrease in cash of \$620,000. This result demonstrates improved liquidity management and is one of the most positive aspects of the year's performance.

Council generated a positive cash movement from operating activities of \$3.35 million. Operating cash is the primary funding source for Council activities.

Council invested \$2.84 million in capital projects during the year. This was \$1.42 million below budget, reflective of some capital roading works being delayed and others being delivered below budgeted levels. Roding works continues to work within the three-year NZTA roading agreement, with projects split between years and capital and maintenance works as required.

Financing activity remained limited, with no new borrowings raised; and all outstanding loans now repaid.

The closing cash balance was \$745,000, compared with \$237,000 at 30 June 2025; and a budgeted overdraft position of \$510,000. The improved cash position reflects a combination of positive operating cash flows, lower capital expenditure than budgeted, and reduced liabilities. Noting approximately \$550,000 remains earmarked for grant funded projects.

Strategic risks and future challenges

While the draft financial statements present a positive result, several strategic risks remain.

Financial Sustainability:

The draft 2025/26 financial statements demonstrate a significantly improved financial position compared with both the Annual Plan and the previous year. Council has achieved a stronger cash position, reduced liabilities and delivered an operating surplus despite a challenging financial environment.

However, the results also highlight several longer-term challenges. The operating surplus has been supported by expenditure restraint, a significant portion of available cash is committed to grant-funded projects yet to be completed, and the condition of critical infrastructure continues to require attention. In addition, compliance obligations associated with Local Water Done Well are expected to place increasing pressure on Council's finances over the coming years.

Overall, subject to audit completion and any resulting adjustments, Council remains financially stable in the short term, but continued focus will be required to address

infrastructure investment, revenue sustainability and future regulatory compliance obligations.

Local Water Done Well:

One of the most significant emerging challenges remains implementation of the Local Water Done Well reforms. Council faces increasing compliance obligations and infrastructure expectations at a time when funding capacity remains limited. Without additional funding support or alternative delivery arrangements, Council may face difficulties meeting future regulatory requirements. Potential consequences include:

- Increased compliance costs;
- Reduced ability to achieve water-related performance measures;
- Greater operational risks; and
- Potential impacts on public health outcomes, including the need for boil-water notices where standards cannot be met.

Going Concern and Audit Risk:

Audit New Zealand is expected to continue focusing on Council's ability to operate as a going concern and its capacity to respond to increasing regulatory requirements.

A draft going concern assessment has been prepared separately for Council consideration. While Council's financial position has improved, underlying challenges remain, including:

- Limited funding capacity;
- Significant future infrastructure investment requirements;
- Dependence on external funding support; and
- Increasing compliance costs.

It is therefore possible that Audit New Zealand will again include an Emphasis of Matter relating to going concern, as has occurred in previous years.

Such an opinion would not indicate that the financial statements are incorrect but would highlight uncertainty regarding Council's long-term financial sustainability and operating environment.

Attachments

Appendix A Draft financial statements

Appendix A Draft financial statements

Statement of Comprehensive Revenue and Expense for the year ended 30 June 2026

	Actual 2025/26 \$000	Annual Plan 2025/26 \$000	Actual 2024/25 \$000
Revenue			
Rates	916	873	843
Grants & subsidies	8,942	9,673	9,259
Council Dues	276	291	264
Petrol	470	553	446
User pays, fees & charges	285	177	175
Interest	51	47	17
Other revenue	424	141	571
Total revenue	11,364	11,755	11,575
Expenditure			
Depreciation and amortisation	2,028	2,317	2,590
Personnel costs	1,007	969	1,070
Financial costs	5	-	5
Other expenditure	6,154	7,171	6,802
Total expenditure	9,194	10,457	10,467
Share of surplus/(loss) of associate	-	136	(237)
Total surplus/deficit	2,170	1,434	871
Comprehensive revenue and expense			
Increase/(decrease) in revaluation reserve	9,223	-	63
Total other comprehensive revenue and expense	9,223	-	63
Total comprehensive revenue and expense	11,393	1,434	934

Statement of changes in equity for the year ended 30 June 2026

	Actual 2025/26 \$000	Annual Plan 2025/26 \$000	Actual 2024/25 \$000
Equity at the start of the year	99,442	100,223	98,508
Total comprehensive revenue and expense	11,393	1,434	934
Equity at the end of the year	110,835	101,657	99,442

Statement of financial position as at 30 June 2026

	Actual 2025/26 \$000	Annual Plan 2025/26 \$000	Actual 2024/25 \$000
Current assets			
Cash & cash equivalents	747	-	237
Cash funds held in trust	345	-	345
Cash investments	-	-	-
Receivables and other financial assets	736	764	639
Inventory	-	-	50
Total current assets	1,828	764	1,271
Non-current assets			
Investment in associate	131	487	131
Property, equipment & intangible assets	110,001	102,605	99,965
Total non-current assets	110,132	103,092	100,096
Total assets	111,960	103,856	101,367
Current liabilities			
Bank overdraft	-	510	-
Payables and other financial liabilities	1,036	1,599	1,835
Total current liabilities	1,036	2,109	1,835
Non-current liabilities			
Other long term financial liabilities	89	90	90
Total non-current liabilities	89	90	90
Total liabilities	1,125	2,199	1,925
Net assets	110,835	101,657	99,442
Public equity			
Accumulated funds & reserves	110,835	101,657	99,442
Total public equity	110,835	101,657	99,442

Statement of cash flows for the year ended 30 June 2026

	Actual 2025/26 \$000	Annual Plan 2025/26 \$000	Actual 2024/25 \$000
Cash flow from operating activities			
Receipts from rates revenue	916	834	834
Receipts from grants and subsidies	8,942	9,554	9,843
Receipts from Council Dues	220	312	262
Interest received	51	47	17
Receipts from other revenue	1,188	838	1,889
Payments made to employees	-	(949)	(1,048)
Interest paid	(5)		(5)
Other payments to suppliers	(7,959)	(6,973)	(7,483)
Net cash flow from operating activities	3,353	3,663	4,309
Cash flow from investing activities			
Purchase of fixed assets	(2,844)	(4,261)	(3,699)
Sale/(purchase) of other assets	-	-	103
Net cash flow from investing activities	(2,844)	(4,261)	(3,596)
Cash flow from financial activities			
Loans raised	-	-	-
Repayment of loans	(1)	(22)	(19)
Net cash flow from financial activities	(1)	(22)	(19)
Increase/(decrease) in cash held	508	(620)	694
Opening cash balance	237	110	(111)
Closing cash balance	745	(510)	583



chatham islands council

Performance, Audit & Risk Committee

3.2 CIC Going Concern Assessment

Date of meeting	13 August 2026
Agenda item number	3.2
Author/s	Tanya Clifford – Ecan / Bob Penter, Interim Chief Executive

Purpose

The purpose of this report is to present PARC with the Chatham Islands Council Going Concern Assessment for consideration and endorsement.

The assessment has been prepared in accordance with ISA (NZ) 570 – Going Concern and PBE IPSAS 1 – Presentation of Financial Statements, and evaluates Council's ability to continue operating as a going concern for a period of at least twelve months from the expected signing date of the 2025/26 Annual Report in October 2026.

PARC is asked to consider the assessment and confirm its support for the conclusion that the going concern basis of accounting remains appropriate for the preparation of the 2025/26 Annual Report.

Recommendations

That PARC:

- 1. Receives the report titled "Chatham Islands Council Going Concern Assessment".**
- 2. Notes that the Going Concern Assessment has been prepared in accordance with ISA (NZ) 570 – Going Concern and PBE IPSAS 1 – Presentation of Financial Statements.**
- 3. Endorses the Going Concern Assessment and confirms that, having considered the information presented, PARC is satisfied that the Chatham Islands Council remains a going concern for a period of at least twelve months from the expected signing date of the 2025/26 Annual Report.**
- 4. Confirms that the going concern basis of accounting is appropriate for the preparation of the 2025/26 Annual Report.**

Background

Please see attached report.

Chatham Islands Council (CIC) Going Concern Assessment

Assessment of CIC's ability to continue as a Going Concern for 12 Months following signing of the 2025/26 Annual Report

In accordance with ISA (NZ) 570 *Going Concern* and PBE IPSAS 1 *Presentation of Financial Statements*, Management, the Performance and Risk Committee (PARC), and Council have considered the Council's ability to continue operating as a going concern for a period of at least twelve months from the expected signing date of the 2025/26 Annual Report in October 2026.

In making this assessment, consideration has been given to factors that may impact the Council's financial viability and ability to continue delivering its statutory responsibilities. This includes the ongoing reliance on Central Government funding - including the adequacy of that funding, operating results and cashflows for the current and future years, legislative and regulatory obligations, and other known risks and uncertainties facing the Council.

While Council continues to face financial sustainability challenges, particularly arising from static funding levels, increasing operating costs, and deferred infrastructure investment; Management, PARC and Council are satisfied that appropriate budgeting, cashflow management, and ongoing Crown funding support provide a reasonable basis to conclude that the Council will remain operational and able to meet its obligations for at least one year following the signing of the 2025/26 Annual Report.

Based on this assessment, Management considers that the going concern assumption has been met and that it remains appropriate for the 2025/26 Annual Report to be prepared on a going concern basis.

Considerations

Central Government Funding

The Council remains highly dependent on Central Government funding to support its operations. The annual Crown appropriation makes up most of the Council revenue. Continued Government support remains critical to the Council's ability to meet its statutory obligations and maintain service delivery to the Chatham Islands community.

The 2026/27 funding appropriation was confirmed at approximately [\\$4.2 million](#); consistent with funding received in recent years. While there is an ongoing expectation that Central Government will continue to provide operational financial support, there remains uncertainty regarding the future level of that support. Funding is confirmed annually through the Government budget process and, in recent years, requests for increased funding have generally not been approved.

At the same time, Council continues to operate in a challenging financial environment characterised by:

- sustained inflationary pressures;
- increasing fuel, freight and transport costs associated with the island's remote location;
- rising contractor and professional services costs and service uncertainties;
- increasing compliance and regulatory obligations; including additional responsibilities arising from water reform, environmental management requirements, and other legislative changes.

The current level of Crown support has not kept pace with rising costs, increasing compliance obligations, or the growing investment required to maintain and renew Council infrastructure. Funding arrangements also do not account for inflationary pressures or depreciation cost associated with Council assets.

As a result, the Council is required to deliver a broader range of services and meet higher regulatory expectations with relatively less funding in real terms. To manage this funding constraint, Council's approach has generally been to operate within available funding levels rather than draw extensively on limited cash reserves or borrow short term. In practice, this may result in the deferral of planned work programmes, infrastructure investment, or activities necessary to achieve compliance with legislative requirements or other good practice initiatives.

Council continues to actively manage expenditure and seek operational efficiencies. However, the underlying structural funding challenge remains, with operating cost increases continuing to overtake forecast revenue growth. Previous requests for additional operational funding, or for funding arrangements that better reflect the Council's assessed needs, have generally been unsuccessful. There is significant uncertainty around future changes to the funding model, particularly regarding potential support for investment in non-operational assets.

Management considers it likely that ongoing Crown support will continue during the assessment period. However, the adequacy and future level of that support remain uncertain and continue to present a key financial risk to the Council's long-term sustainability. The lack of funding certainty, combined with the annual funding negotiation process and the absence of a clear long-term funding strategy from the Department of Internal Affairs (DIA), remains a source of ongoing concern for the Council.

Vote extract of Council's funding level for 2026/27:

Non-Departmental/ Other Expenses		
Chatham Islands Council	4,205	4,205
This category is limited to contribution to the cost of the Chatham Islands Council meeting its statutory responsibilities.		
Crown-owned Assets at Lake Taupo - Depreciation and Maintenance Costs	1,521	1,499
This category is limited to depreciation and maintenance costs associated with Crown-owned assets at Lake Taupo.		
Non-Departmental/ Capital Expenditure		
Capital Investments - Lake Taupo	80	80
This category is limited to upgrading of boating facilities at Lake Taupo.		

[*Vote Internal Affairs - Vol 4 Finance and Government*](#)

[*Administration Sector - The Estimates of Appropriations 2026/27 - Budget 2026*](#)

Infrastructure Investment and Asset Management Challenges

A continuing area of concern, identified in both the Long-Term Plan and independent reviews commissioned by the Department of Internal Affairs (including the McGredy Winder reports), is the significant level of investment required in Council infrastructure, particularly water supply and wastewater assets. This issue has become more noteworthy following the introduction of the Local Water Done Well reforms, which are expected to increase future regulatory and investment requirements.

For several years, investment in non-roading infrastructure has been constrained by limited funding availability. As a result, asset renewals and upgrades identified as critical have been deferred, contributing to the overall deterioration of asset condition and an increasing reliance on reactive maintenance and emergency repairs.

Water and wastewater infrastructure remain the Council's most significant asset management challenge. The Council is required to meet increasing regulatory expectations while continuing to operate ageing infrastructure with limited capital funding support. Historically, the Council has been required to issue drinking water advisories, including boil water and do-not-drink notices in response to water supply and quality issues affecting both Waitangi and Kaingaroa. These events demonstrate the increasing risks associated with ageing infrastructure and reinforce the need for continued investment in critical water and wastewater assets.

Engineering assessments and the Long-Term Plan have identified several critical renewal and upgrade projects. However, the timing and affordability of these projects remain uncertain due to funding constraints. Continued delays in investment increase the risk of:

- asset failures and service interruptions;
- escalating maintenance and repair costs;
- difficulty meeting regulatory requirements and community service expectations;
- constraints on housing, commercial development, and future growth opportunities; and
- significant future funding pressures as major renewal works become unavoidable.

While these matters do not present an immediate going concern risk within the assessment period, they continue to represent a significant strategic, operational, and financial challenge for the Council.

Management acknowledges that addressing these infrastructure challenges will require additional external funding support and/or long-term funding commitments to enable the renewal and replacement of critical water, wastewater, and other community infrastructure assets.

Expected financial performance and cashflow for 2026/27

The Council continues to operate within a constrained financial environment and maintains limited cash reserves. Notwithstanding these challenges, the 2026/27 Annual Plan indicates that the Council is expected to remain financially viable throughout the year and continue meeting its obligations as they fall due.

The 2026/27 budget is based on several key assumptions, including:

- receipt of the annual Crown appropriation of approximately \$4.2 million;
- expenditure with Stantec and Fulton Hogan occurring in accordance with agreed contract rates and expected service delivery requirements during the year;
- regional council and corporate support costs being broadly consistent with historical expenditure levels of approximately \$1.0 million, acknowledging there remains some uncertainty regarding future service delivery arrangements;
- employee costs are based on current staffing levels, adjusted for anticipated inflationary increases; and
- all other operating costs are estimated based on 2024/25 actual expenditure, adjusted for expected inflationary movements.

Based on these assumptions, the Annual Plan forecasts a surplus of approximately \$407,000 for the 2026/27 financial year, capital additions of \$3.0 million, depreciation expense of \$2.6 million, and a positive cash movement of approximately \$23,000. *An extract of budgeted information in the 2026/27 Annual Plan is provided at the end of this document.*

The budget assumed an opening cash balance of approximately \$93,000 and that grant funding received in advance during 2025/26 would have been spent by 30 June 2026. This did not occur, with several grant-funded projects carrying over into 2026/27. As a result, both the actual opening cash balance and the associated expenditure expected to occur in 2026/27 are approximately \$500,000 higher than assumed in the Annual Plan. The net impact of this timing difference is not expected to materially affect the Council's overall financial position.

While budget forecasts indicate that Council can continue to meet its financial obligations during 2026/27, cashflow pressures are expected to remain throughout the period under review. Historically, the greatest cashflow pressure occurs in the final months of each financial year, immediately prior to the receipt of the annual Crown appropriation in July.

Management's cashflow forecasts indicate that the Council is expected to remain within its approved overdraft and investment limits throughout the forecast period. However, maintaining liquidity will continue to require active financial management, including ongoing monitoring of expenditure, implementation of cost control measures where appropriate, and careful management of creditor payments.

The Council's ability to respond to significant unplanned expenditure remains limited due to its constrained cash position. As in previous years, the annual Crown appropriation remains a critical source of funding and a key factor in maintaining liquidity throughout the year.

Although the Council's working capital position remains weak and is not expected to materially improve in the short term, cashflow forecasts indicate that the Council has sufficient resources and management strategies in place to meet its obligations as they fall due. The underlying challenge remains the ongoing disparity between the growth in operating costs and the level of funding available to the Council.

In assessing going concern, Council's primary assessment period remains the period to 30 June each year. Due to the timing of the annual Crown appropriation, a significant cash inflow is typically received in July, shortly after year end. Accordingly, if the Council remains financially viable and operational as at 30 June 2027, Management considers it reasonable to conclude that the Council will also remain operational through to 31 October 2027, being at least twelve months after the expected signing date of the 2025/26 Annual Report.

Notwithstanding the ongoing funding and cashflow challenges outlined above, Management considers that the Council has sufficient resources and mechanisms available to manage short-term liquidity requirements and continue normal operations throughout the assessment period.

Previous Reviews and Ongoing Concerns

The findings of previous organisational reviews, including the funding review financial health checks commissioned by the Department of Internal Affairs (DIA) and undertaken by Peter Winder (McGredy Winder), continue to remain relevant. The most recent review largely reiterated concerns identified in an earlier assessment and concluded that the Council faced a range of ongoing financial sustainability challenges.

Key issues identified included insufficient long-term funding certainty, underinvestment in infrastructure, limited cash reserves, pressure on cashflow and working capital, increasing compliance obligations, and challenges maintaining expected levels of service within existing funding arrangements.

The review advocated for increased Crown funding support, a long-term and sustainable funding agreement with Central Government, and revenue increases aligned with inflation and increasing service delivery costs. While Council has received approximately \$1 million of additional funding annually since 2020/21, the anticipated benefits have not been fully realised. The funding was originally intended to improve the Council's financial position and support infrastructure investment by funding debt servicing costs. However, increasing operational expenditure requirements, including the NZTA - Waka Kotahi funding shortfall, lease costs for the new Council office, and the operation of the waste management facility, have largely consumed this additional funding. Consequently, limited progress has been made towards addressing the infrastructure investment backlog or the underlying structural funding challenges identified in the McGredy Winder review.

Many of the concerns raised continue to apply. Despite ongoing discussions with Central Government, limited progress has been made towards establishing a sustainable long-term funding arrangement that reflects the true cost of delivering local government services on the Chatham Islands. Funding negotiations continue to occur on a largely annual basis, providing limited certainty for long-term planning and investment decisions.

Similarly, there has been limited progress in securing an agreed funding approach for the renewal and development of critical infrastructure assets. Investment in non-roading infrastructure, particularly water and wastewater assets, continues to be deferred or constrained due to funding limitations, resulting in increasing asset condition and service delivery risks.

The Council's ability to respond to emergency events or other significant unexpected expenditure also remains constrained by limited cash balances and financial reserves. Historically, emergency response costs have generally been reimbursed by Central Government following an event; however, Council must initially fund these costs itself. The Council therefore has limited capacity to absorb major unforeseen expenditure without additional external support.

While improvements have been made in several operational and financial management areas, the underlying structural challenges identified by previous reviews remain largely unresolved. These challenges continue to present risks to the Council's long-term financial sustainability and reinforce the importance of securing a more sustainable funding and infrastructure investment framework.

Conclusion

Management has considered all available information for the period extending at least twelve months from the expected signing date of the 2025/26 Annual Report. The assessment identifies ongoing financial sustainability challenges arising from:

- static Crown funding in an inflationary operating environment;
- increasing costs associated with service delivery and statutory compliance;
- significant infrastructure investment requirements, particularly in water and wastewater assets; and
- constrained cash reserves and working capital pressures.

Notwithstanding these matters, management believes that:

- Central Government funding support will continue during the assessment period;
- Council has adopted appropriate budgets and cashflow management strategies;
- forecast cashflows indicate Council can continue meeting its obligations as they fall due; and
- there is no intention or requirement to cease operations or materially curtail service delivery.

Accordingly, management has concluded that the use of the going concern basis of accounting remains appropriate and that the Council is expected to remain operational and financially viable for at least twelve months from the date of signing the 2025/26 Annual Report. While material uncertainties relating to long-term funding adequacy and infrastructure investment remain, these are not considered sufficient to cast significant doubt on the Council's ability to continue as a going concern over the assessment period.

Financial extracts 2026/27 Annual Plan

Statement of Comprehensive Revenue and Expense						
	Actual 2024/25 \$'000	Long-Term Plan 2024/25 \$'000	Long-Term Plan 2025/26 \$'000	Long-Term Plan 2026/27 \$'000	Annual Plan 2026/27 \$'000	Variance 2026/27 \$'000
Revenue						
General Rates	417	381	406	431	437	6
Targeted Rates	426	436	463	493	497	4
Grants & Subsidies	9,259	9,214	9,761	9,146	8,806	(340)
Council Dues	264	309	318	327	281	(46)
User Pays, Fees & Charges and Other Income	1,192	374	388	396	452	56
Interest	17	42	44	45	40	(5)
Total Revenue	11,575	10,756	11,380	10,838	10,513	(325)
Expenditure						
Depreciation and Amortisation	2,590	2,210	2,317	2,364	2,573	209
Employment Benefits	1,070	1,060	1,091	1,122	1,286	164
Financial Costs	5	1	-	-	-	-
Other Expenditure	6,802	6,333	6,400	6,570	6,247	(323)
Total Expenditure	10,467	9,604	9,808	10,056	10,106	50
Total Surplus/Deficit	1,108	1,152	1,572	782	407	(375)
Comprehensive Income						
Increase/decrease in Revaluation Reserve	63	-	-	21,086	-	(21,086)
Share of surplus of associate	(237)	109	112	116	-	(116)
Total Other Comprehensive Income	(174)	109	112	21,202	-	(21,202)
Total Comprehensive Income	934	1,261	1,684	21,984	407	(21,577)
Statement of Financial Position						
	Actual 2024/25 \$'000	Long-Term Plan 2024/25 \$'000	Long-Term Plan 2025/26 \$'000	Long-Term Plan 2026/27 \$'000	Annual Plan 2026/27 \$'000	Variance 2026/27 \$'000
Current Assets						
Cash & Cash Equivalents	237	-	-	-	116	116
Cash Investments	345	187	193	199	-	(199)
Current Trade And Other Receivables	689	731	774	737	626	(111)
Total Current Assets	1,271	919	967	936	742	(194)
Non-Current Assets						
Investment in associate	131	351	463	579	131	(448)
Property, Plant & Equipment	99,965	102,509	104,267	126,222	123,397	(2,825)
Total Non-Current Assets	100,096	102,860	104,730	126,801	123,528	(3,273)
Total Assets	101,367	103,779	105,697	127,737	124,270	(3,467)
Current Liabilities						
Bank Overdraft	-	189	402	425	-	(425)
Payables and other financial liabilities	1,835	1,297	1,319	1,353	1,756	403
Total Current Liabilities	1,835	1,487	1,721	1,777	1,756	(22)
Non-Current Liabilities						
Term Liabilities	90	90	90	90	90	-
Total Non-Current Liabilities	90	90	90	90	90	-
Total Liabilities	1,925	1,577	1,811	1,867	1,846	(22)
Net Assets	99,442	102,202	103,886	125,870	122,424	(3,446)
Public Equity						
Accumulated Funds & Reserves	99,442	102,202	103,886	125,870	122,424	(3,446)
Total Public Equity	99,442	102,202	103,886	125,870	122,424	(3,446)

Statement of Cash Flows						
	Actual 2024/25 \$000	Long-Term Plan 2024/25 \$000	Long-Term Plan 2025/26 \$000	Long-Term Plan 2026/27 \$000	Annual Plan 2026/27 \$000	Variance 2026/27 \$000
Cash Flow from Operating Activities						
Receipts from rates revenue	834	816	865	927	919	(8)
Receipts from grants and subsidies	9,462	9,204	9,726	9,176	8,821	(355)
Receipts from Council Dues	262	309	316	328	280	(48)
Interest received	17	42	44	45	40	(5)
Receipts from other revenue	1,889	372	380	403	592	189
Cash provided from Operating Activities	12,464	10,742	11,332	10,880	10,652	(228)
Payments made to employees	(1,048)	(1,060)	(1,091)	(1,122)	(1,265)	(143)
Interest paid	(5)	(1)	-	-	-	-
Other payments to suppliers	(7,103)	(5,944)	(6,367)	(6,540)	(6,375)	165
Cash required for operating activities	(8,156)	(7,005)	(7,458)	(7,662)	(7,640)	22
Net Cash Flow from operating activities	4,308	3,737	3,874	3,218	3,012	(206)
Cash Flow from Investing Activities						
Purchase of Fixed Assets	(3,699)	(3,748)	(4,075)	(3,235)	(2,989)	246
Sale (Purchase) of Other Assets	103	-	-	-	-	-
Net Cash Flow from Investing Activities	(3,597)	(3,748)	(4,075)	(3,235)	(2,989)	246
Cash Flow from Financial Activities						
Loans Raised	-	-	-	-	-	-
Repayment of Loans	(19)	(22)	(5)	-	-	-
Net Cash Flow from Financial Activities	(19)	(22)	(5)	-	-	-
Increase/(Decrease) in Cash Held	693	(33)	(206)	(17)	23	40
Opening Cash Balance	(111)	31	(3)	(208)	93	301
Closing Cash Balance	582	(2)	(209)	(226)	116	342



Performance, Audit & Risk Committee

3.3 2026 Interim Audit Management Report

Date of meeting	17 August 2026
Agenda item number	3.3
Author/s	Bob Penter, Interim Chief Executive

Purpose

The purpose of this report is to provide the Performance, Audit and Risk Committee (PARC) with the Audit Management Report for information and to provide an update on matters identified through the audit process.

Recommendations

That the Performance, Audit and Risk Committee:

- 1. Receives the Audit Management Report for information.**

Background

The Audit Management Report provides management with an overview of matters arising from the audit process, including any control observations, recommendations, areas requiring management attention, and the status of actions undertaken in response.

The report is provided to PARC to support the Committee's oversight responsibilities in relation to financial reporting, internal controls, risk management, governance and the audit process.

Audit Management Report

The Audit Management Report is attached to this report for the Committee's consideration.

The report identifies matters arising from the audit and records management's responses and proposed actions where applicable. The Committee is invited to consider the matters raised and the progress made in addressing any outstanding items.

Where actions remain outstanding, these will continue to be monitored by management and reported to PARC as appropriate.

Key Matters for the Committee's Attention

The Audit Management Report should be considered alongside the Council's wider risk management, financial management and governance reporting.

In particular, PARC may wish to note:

- the matters identified through the audit process;
- management's responses to those matters;
- the status of any agreed corrective actions;
- any matters that remain outstanding or require further attention; and
- any matters that may warrant ongoing monitoring by PARC.

Risk Considerations

Receiving and monitoring the Audit Management Report supports Council's governance and risk management framework by ensuring that matters identified through the audit process are appropriately considered and, where required, addressed.

Failure to appropriately monitor audit recommendations may increase Council's exposure to financial, operational, compliance and governance risks.

Financial Implications

There are no direct financial implications arising from the recommendation to receive this report.

Any financial implications associated with individual matters identified in the Audit Management Report will be addressed through the appropriate Council processes.

Legal and Regulatory Considerations

The Audit Management Report supports Council in meeting its governance, financial management and accountability obligations.

Any specific legislative or regulatory matters identified through the audit process will be managed by Council in accordance with the applicable requirements.

Conclusion

The Audit Management Report is presented to PARC for information and oversight. The Committee is asked to receive the report and note the matters identified and the management actions being undertaken in response.

Attachments

Attachment 1: Audit Management Report

.

Interim report to management

on the audit of
Chatham Islands Council

For the year ending 30 June 2026

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Introduction

We have completed our interim audit for Chatham Islands Council (the Council) for the year ending 30 June 2026.

Audit progress to date

Control environment

The primary objective of our interim audit was to update our understanding of the Council's control environment and systems of internal control relevant to the audit. We carried out a high-level assessment of the Council's control environment over key financial and non-financial systems. This work was completed to plan the most effective and efficient audit approach, to enable us to express an audit opinion on the Council's financial statements and service performance information for the year ending 30 June 2026.

Our review identified a few opportunities for improvement; refer to the "Recommendations" section. For each recommendation, we provide an indicative priority rating.

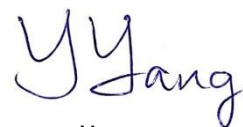
Infrastructure asset valuation

The interim roading valuation, as at March 2026, is materially reasonable and complies with applicable valuation standards. The matters identified (page 3) do not affect our interim audit conclusion, but they provide opportunities to further strengthen the transparency and consistency of the Council's roading asset valuation processes.

However, our review of the water valuation report, the CIC Water Services Condition Assessment Report, and discussions with Stantec identified impairment indicators for water assets. The matters identified in relation to water assets may require further consideration and could affect the audit opinion.

We will revisit these matters as part of the 2026 year-end audit, including our assessment of the updated roading valuation and management's impairment assessment for water assets as at 30 June 2026.

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



Yvonne Yang
Appointed Auditor
17 July 2026

Valuation of infrastructure assets

We have completed our planned interim procedures over the valuation of infrastructure assets as of 30 March 2026, including a review of the revaluation process, source data, methodology, and key assumptions applied.

The revaluation resulted in a 9% increase (\$8.5 million) in the fair value of roading assets as at 31 March 2026. While no material misstatements were identified, we noted several opportunities to further strengthen the valuation process in preparation of 30 June 2026 valuation position, as outlined below:

Remaining useful life (RUL) assumptions

The valuer applied a remaining useful life (RUL) assumption of four years to certain pavement structure assets with a total depreciated replacement cost of approximately \$22 million. These assets primarily relate to roads that have exceeded their original useful lives. The valuer adopted a total useful life of eight years and applied a RUL equal to four years, being 50% of the total useful life.

We note that applying a 50% RUL assumption is consistent with industry practice and aligns with guidance in the Āpōpō Infrastructure Asset Valuation and Depreciation Guidelines. The basis for this assumption has subsequently been documented in the valuation report.

However, the four-year RUL assumption is not aligned with the renewal timing reflected in the Asset Management Plan (AMP), and the valuation report does not clearly explain the rationale for this difference. While accounting standards do not require alignment between RUL and AMP

renewal timing, differences should be supported by clear evidence and transparent disclosure. The valuer has acknowledged this matter and advised that improvements to asset management information are planned as part of the next AMP review and long-term plan (LTP) process.

Estimation uncertainty

The valuation as at 31 March 2026 was based on NZTA cost indices available up to December 2025. Consequently, the valuation does not reflect more recent market developments, including geopolitical events emerging from late February 2026 that may have contributed to increased volatility in fuel, materials, and construction input costs.

The valuation report appropriately notes that the valuation represents a point-in-time assessment and includes a general disclaimer regarding subsequent market movements. However, the report does not assess or quantify the potential effect of these post-index market developments on replacement costs. While we do not consider this omission to have a material impact on the current valuation, consideration of estimation uncertainty could be enhanced through more explicit analysis and disclosure of significant post-balance date market conditions.

Asset classification

We identified several instances where valuation categories could not be readily reconciled to fixed asset register (FAR) asset classes. In addition, some inconsistencies exist between the categorisation used for valuation purposes and the categorisation recorded in the FAR. These matters increase the risk of classification errors and may reduce the

reliability and efficiency of future valuation and asset management processes.

We also note that differences between the general ledger (GL) and Stantec reporting have previously been identified by NZTA. These differences relate to the coding of one-off Hunter Civil contracted works, which differs from the coding applied to the standard Stantec and Fulton Hogan works programmes. Given potential changes to Environment Canterbury contract arrangements and staff turnover, there remains a risk that inconsistencies between source systems may continue unless they are actively monitored and reconciled.

Water asset condition and impairment considerations

We reviewed the water assets valuation report, together with the CIC Water Services Condition Assessment Report prepared by ProjectMax. The condition assessment was commissioned for Water Service Delivery Plan.

Based on the condition assessment report, Stantec agreed that assets currently graded as being in poor condition would largely require replacement. The need to replace existing assets indicates that these assets may be beyond economic repair and may no longer be able to provide their intended service potential. This represents an impairment indicator. Recognition of an impairment loss in the Council's current-year surplus or deficit may therefore be required, together with the reversal of any corresponding revaluation reserve.

We understand that Stantec has not compared the assigned useful lives in the asset valuation report with the approximate remaining useful lives in the asset condition assessment report. Stantec considers that a

comprehensive and accurate condition assessment could not be completed for the Council's water assets because of limited available data, time constraints, and insufficient funding to address these deficiencies. This creates a high degree of uncertainty. As a result, any potentially material impairment loss in the current-year surplus or deficit cannot currently be quantified and may have implications for the audit opinion.

Recommendations

- Strengthen documentation of remaining useful life assumptions by ensuring that assumptions are consistently applied, supported by asset management information, and that any differences from AMP renewal forecasts are clearly explained.

Management comment

Agreed. Council has a combined Infrastructure Strategy rather than a separate three waters asset management plan. The LTP did not include an allowance for three waters' renewals in its financial statements because the projects were unfunded; the projects were instead described in the LTP, consistent with earlier Audit guidance. The Water Services Delivery Plan includes a renewals programme. The condition assessment will inform remaining useful life assumptions in the Water Services Delivery Plan and future asset valuations. Council will keep the GIS-based condition information for above-ground assets developed June 2026 current and add below-ground information as investigations are funded.

- Enhance consideration of estimation uncertainty by assessing the potential impact of significant market movements not captured in the valuation indices used and considering whether additional disclosure or adjustment is required.

Management comment

Agreed. Council monitors market movements through procurement activity and its long-term contracts for professional engineering services, operations and maintenance. At each valuation date, management will document any significant market movements arising after the indices used, seek advice from the valuer where those movements could be material, and assess whether an adjustment or additional disclosure is required.

- Improve asset classification and reconciliation processes through timely reconciliation among valuation records, the GL/fixed asset register, and Stantec reporting, with any differences clearly documented and resolved.

Management comment

Agreed. Council finance staff, ECAN financial services staff, and Stantec will reconcile valuation records, the general ledgers, fixed asset register, and NZTA/Stantec reporting as part of the 30 June 2026 year-end process or at the next three waters valuation if this is not possible. Differences, including the coding of one-off Hunter Civil works, will be documented and resolved where possible. Any remaining reconciling items will be retained only where they are supported and clearly explained. The reconciliation will then form part of each valuation cycle.

- Consider the potential impact of water asset condition, including the likelihood and extent of any impairment.

Management comment

Agreed. Management will prepare a water asset impairment assessment as at 30 June 2026 using the condition assessment, valuation information and advice from Stantec and Council's financial reporting advisers. The assessment will identify assets in poor condition, consider whether their service potential has been reduced, and quantify any impairment and related revaluation reserve adjustment that can be supported by the available evidence. The assessment will also identify where further asset condition investigations would be beneficial, including where data confidence is poor and consequence of asset failure is severe. Council will continue to broadly monitor asset condition, undertake critical remedial work as funding allows, keep the GIS-based condition information current, and use the latest information in the Water Services Delivery Plan and future valuations.

At the 2026 year-end audit, we will

- Assess the updated valuations as at 30 June 2026.
- Assess whether both FAR and NZTA reconciliation.
- Consider management's water assets impairment assessment.

Recommendations



Ref	Priority	Recommendation	Why we are making this recommendation	Management comments
1	High	Contract register Establish a central Contract Register.	A Contract Register provides a single, authoritative list of all contracts and agreements, holding key information such as the supplier, contract value, term, renewal dates, and key obligations. It is especially important for small councils with limited staff to have such a register, as it improves visibility and control over commitments. A central register enables meaningful reporting to senior management and elected members, such as: • summaries of significant or high-risk contracts; • updates on new or materially changed contracts; and • notice of upcoming renewals with financial or strategic impact. This supports effective governance.	Agreed. Council has commenced establishment of a central contract register recording, at a minimum, the supplier, contract value, term, renewal and expiry dates, key obligations, monthly reporting requirements, terms and conditions, responsible manager, and current status. Significant and high-risk contracts, material changes and upcoming renewals will be reported quarterly to the Chief Executive and the Performance, Audit and Risk Committee. Target completion: 30 September 2026.

Ref	Priority	Recommendation	Why we are making this recommendation	Management comments
2	 Medium	Management interest register Establish and implement a formal management Interest Register policy that includes mandatory disclosure requirements, annual certification and event-driven updates, clear governance oversight, defined procedures for managing conflicts of interest, training and awareness, and consequences for non-compliance.	The Council's Code of Conduct (2023) sets conflict-of-interest rules only for elected members, not senior managers. The Managing of Conflict-of-Interest (including Gifts and Koha) (2024) policy applies to all employees, but it does not require the higher level of disclosure usually expected from executive leaders. This means the CEO is treated like a general employee instead of being held to the higher standard normally required for their position. The gap exists because the Council does not require an interest register for senior management. Such a register would help identify, disclose, and manage related-party interests more effectively.	Agreed. Council adopted a staff conflict of interest policy at the Council meeting held 25 June 2026, and a revised Code of Conduct has been drafted for the August Council meeting for adoption. Council has also adopted a management interests register applying to the Chief Executive and senior managers. It will require an annual declaration and prompt updates when circumstances change, with conflict management plans recorded where required. The Chief Executive's interests will be subject to governance oversight and senior managers' interests will be overseen by the Chief Executive. The policy update includes training, compliance expectations and the consequences of non-compliance. Target completion: 30 September 2026.

Ref	Priority	Recommendation	Why we are making this recommendation	Management comments
3	 Medium	Timely expenditure claims Reinforce expectations for the timely submission of expenditure claims by: • applying a consistent submission timeframe for all staff and senior management, aligned with the Councillors' Expenses, Allowances and Reimbursements policy; and • ensuring all claims are lodged within the required period and within the same financial year in which the expenditure is incurred.	We found that three of the four monthly claims reviewed included transactions from January 2025 to June 2025. As a result, some prior-year (2024/25) expenses were recorded in the current year (2025/26), causing financial misstatements and reducing the accuracy of year-end reporting. Although not material in dollar terms, late submission also increases the risk that inappropriate or non-compliant spending is approved because approvers cannot reliably confirm the business purpose or supporting evidence. This weakens internal controls, reduces transparency, and may lead to non-compliance with policy and reporting errors.	Agreed. Council continues to strengthen its process. Expenditure claims will be submitted monthly, no later than 30 days after month-end, and all year-end claims must be lodged by the Finance close deadline. The requirement will apply to staff and senior management and will be aligned with the requirements applying to elected members. Late claims will require a written explanation and specific approval before processing. Finance will monitor compliance and report exceptions to the Chief Executive. Effective from 1 August 2026; related policy and guidance updates by 30 September 2026.

Ref	Priority	Recommendation	Why we are making this recommendation	Management comments
4	 Medium	Sensitive expenditure pre-approval Require pre-approval for all travel and entertainment, regardless of cost, and for additional communication charges to ensure spending meets core public-sector principles of clear business purpose, impartiality, integrity, moderation, transparency, and proper authority.	Travel authority Three of the monthly claims reviewed did not include a clear business purpose. The claims listed only the offices visited, without explaining why the travel occurred or what activities were undertaken. We also noted a group trip in May 2025 with no clearly documented business purpose or pre-approved travel authority. Entertainment during travel We identified several entertainment-related meal expenses during travel that were not supported by sufficient documentation. Communication charges Mobile phone add-ons and roaming charges can appear personal in nature, particularly if incurred outside working hours or purchased as bundle upgrades. We identified a \$5 monthly add-on and roaming charges in January and February 2025.	Agreed. Council has strengthened controls around sensitive expenditure in recent months, this included reviewing and updating the sensitive expenditure policy adopted on 28 May 2026. Council requires written pre-approval for all travel and entertainment, regardless of value, and additional communication charges outside of business nature is on-charged to the user. Requests and claims must record the business purpose, expected cost and approving authority. Group travel and hospitality must identify the activity and participants. Approval must be given by a person independent of the claimant, with Chief Executive expenditure subject to Council's governance approval arrangements.

Ref	Priority	Recommendation	Why we are making this recommendation	Management comments
5	 Medium	Strengthening expenditure claim documentation Strengthen controls by introducing a self-review checklist for all expenditure claims, in line with policy, to ensure compliance with meal expenditure limits, set clear per-meal limits for entertainment, and require complete documentation, including all attendee names and a clear business purpose.	Under the Council's Councillors' Expenses, Allowances, and Reimbursements policy (2020), members may claim a reasonable breakfast (or charge it to accommodation) up to \$30 (GST inclusive), lunch up to \$30 (GST inclusive), and dinner up to \$74 (GST inclusive), including alcohol. Costs above these limits must be personally paid. We identified instances where these limits were not applied. The policy also requires the names of attendees and the business purpose for group meals yet claims involving external parties lacked this information.	Agreed. Council has undergone major changes in recent months, updating and creating numerous policies surrounding sensitive expenditure to strengthen and develop good practices and clear guidelines for staff and councillors. Staff and councillors have received copies of all new policies to read and familiarise themselves, mitigating the risk for further incorrect reimbursement claims. A mandatory self-review checklist will be added to expenditure claims. Claims must confirm the applicable policy limits, include receipts, identify all attendees and state the business purpose. Relevant policies will be reviewed to make the per-person, per-meal limits for travel and entertainment clear. Incomplete or non-compliant claims will be returned and will not be processed until corrected or approved as an exception by the appropriate independent authority. Effective from 1 August 2026; checklist and policy guidance updated by 30 September 2026.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

PO Box 2
Christchurch 8140

www.auditnz.parliament.nz



PARC Public Excluded Agenda

17 August 2026

Chair to Move

THAT the public be excluded from the following part of the proceedings of the meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

Item No.	Minutes / Report of:	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
PE 4.2	Chief Executive Officer	PE PARC Minutes 15 June 2026	Good reason to withhold exists under Section 7	Section 48(1)(a)
PE 4.3	Chief Executive Officer	CE Update	Good reason to withhold exists under Section 7	Section 48(1)(a)

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987, and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by holding the whole or relevant part of the proceedings of the meeting in public, are as follows:

ITEM NO.	GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	SUBCLAUSE AND REASON
PE 5.2	PE PARC Minutes 15 June 2026	Would be likely to prejudice the commercial position of the person or persons who are the subject of the information. To maintain legal professional privilege. To enable the Council holding the information to carry out, without prejudice or disadvantage, commercial activities.
PE 5.3	CE Update	s7(2)(b)(ii) – protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information. 7(2)(i) – enable any local authority holding the information to carry on, without prejudice or disadvantage, commercial activities.

and that appropriate officers remain in the meeting to assist members.