

LOCAL GOVERNMENT: RESULTS OF THE 1999-2000 AUDITS

This is our annual report for 1999-2000 on matters arising from our role as auditor of regional and territorial local authorities.

The Contents of this Report

The articles in this report are grouped into six parts:

Part One outlines a number of issues arising from the 1999-2000 audits:

- the management of and accounting for infrastructural assets;
- setting operating revenues to cover operating expenses;
- timeliness of annual reporting;
- legal compliance; and
- separate properties and rating apportionments.

Part Two deals with a mix of other issues that arose during the course of 1999-2000:

- reporting CEO remuneration;
- reporting severance payments;
- competing with the private sector;
- defamation costs; and
- members discussing and voting when interested.

Part Three deals with the special reviews carried out during 1999-2000:

- sale and lease of land;
- reviewing a Long-term Financial Strategy and Funding Policy;
- reporting on achievement of and changes to plans and policies;
- Auckland City Council's administration of the Hauraki Gulf Islands;

- good practice for involvement in a major project; and
- local authority governance of subsidiary entities.

Part Four provides some useful information for any local authority considering entering into a long-term contract for services – with particular reference to maintenance services.

Part Five presents the results of our follow-up audit to review how Papakura District Council has managed and monitored the water and wastewater franchise agreement it has with United Water International Pty Limited.

Part Six describes some of the special matters we have identified for our attention during the 2000-01 audits:

- impact of the Public Audit Act 2001;
- reviews of legislation affecting local government;
- accounting for environmental obligations;
- the integrity of procedures for carrying out regulatory functions;
- the sustainability of essential services; and
- anticipating future rates increases to fund depreciation.

The Purposes of this Report

The purposes of this report are to:

- advise Parliament and local authorities on matters arising from our role as auditor of regional and territorial local authorities;
- identify areas appropriate for legislative clarification or amendment; and
- outline the Audit Office's expectations of "best-practice" on issues of financial management and reporting, governance, and contracting.

As well as being of interest to Members of Parliament and local authorities, we envisage this report will be of interest to a broad range of individuals and groups that have an interest in the local government sector.

Key Recommendations to Parliament

The current reviews of the Local Government Act 1974 and the Public Works Act 1981, as well as the Funding Powers review, provide an opportunity for Parliament to consider the following issues which we have identified in this report as being appropriate for legislative clarification or amendment.

- Setting operating revenues to cover operating expenses (paragraphs 1.201- 1.208).
- The unit of liability for rating purposes as it affects rating apportionments (paragraphs 1.501-1.511).
- Local authorities competing with the private sector (paragraphs 2.301-2.332).
- The requirements relating to the sale and lease of local authority land (paragraphs 3.101-3.127).
- The need for the Local Government Act to recognise the place of asset management information and specification of service levels (paragraphs 3.213-3.220).
- The need for the review of the Local Government Act to address –
 - the means for ensuring that strategies and plans placed before communities are soundly based and comply with legislative authority (paragraphs 3.221-3.228);
 - coherent requirements for reporting on implementation and achievement of strategies and objectives (paragraph 3.228);

- how the various planning and consultation regimes can be better integrated (paragraphs 3.229-3.238);
- legislative requirements and best practice guidance to promote transparency and community participation in funding and rating decisions (paragraphs 3.239-3.248); and
- how to ensure that Parliament’s intentions are clear in relation to the use of the term “significance” in legislation (paragraphs 3.301-3.320).

Key Recommendations for Local Authorities

Local authorities have made steady progress in the management of and accounting for infrastructural assets. However, a number of issues are emerging where further effort is required (paragraph 1.106):

- integrating asset management plans with strategic direction;
- further developing asset management plans;
- defining levels of service;
- adopting risk management practices; and
- valuing infrastructural assets.

Many local authorities should consider how to improve the timeliness of their annual report publication (paragraphs 1.301-1.307).

Every local authority should ensure full disclosure in its annual report of the total remuneration received by the chief executive officer (paragraphs 2.101-2.106).

Local authorities acting in competition with the private sector should carefully consider the statutory authority for doing so (paragraphs 2.301-2.332).

A local authority considering whether to meet the costs of a defamation action taken by or against a member or an employee should take into account our “best practice” guidance (paragraph 2.401-2.435).

A local authority considering entering into a long-term contract (in particular, a maintenance contract) should have regard to the useful information and recommendations in Part Four of the report.

For local authorities considering entering into a franchise agreement (or similar arrangement) for service delivery, Part Five of the report contains general lessons for all local authorities (paragraphs 5.029-5.032).



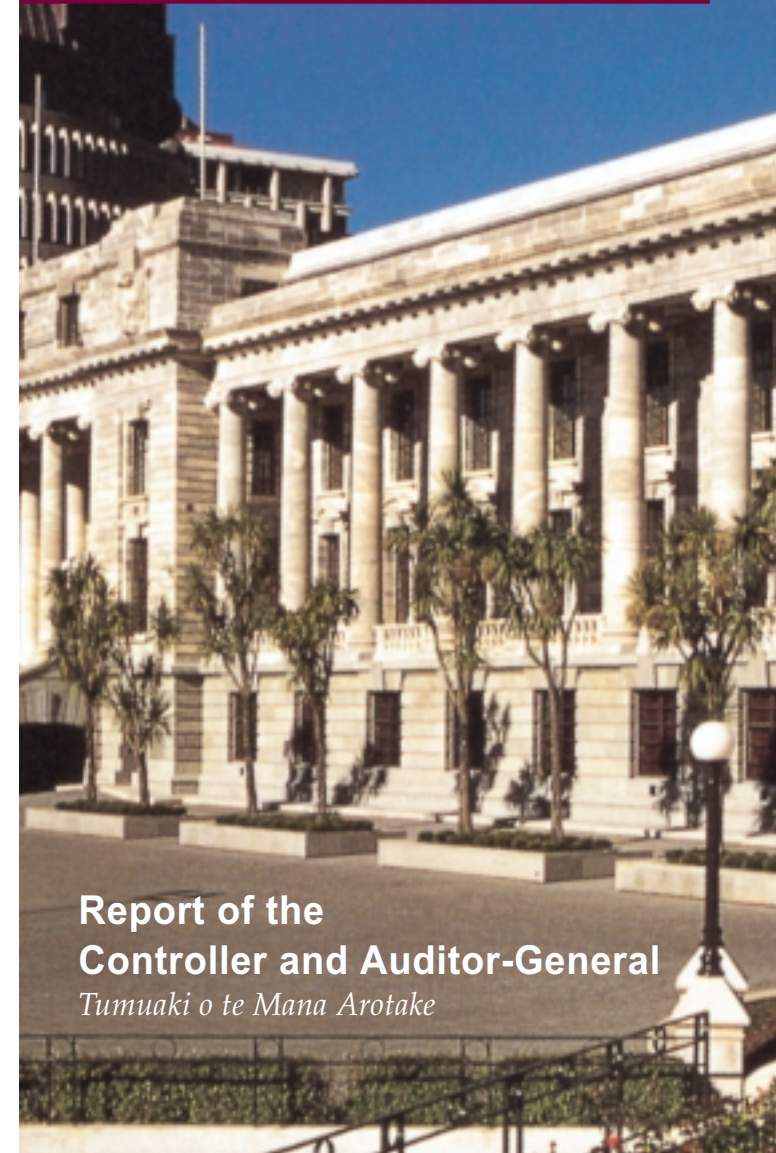
Local Government: Results of the 1999-2000 Audits

Controller and Auditor-General

Tumuaki o te Mana Arotake

The Audit Office
Private Box 3928, Wellington
Telephone (04) 917 1500
e-mail: reports@oag.govt.nz
web site: www.oag.govt.nz

Local Government: Results of the 1999-2000 Audits



Report of the
Controller and Auditor-General
Tumuaki o te Mana Arotake