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Parliamentary paper

Local government:
Results of the
2004-05 audits



Local government: Results of the 2004-05 audits

Presented to the House of
Representatives pursuant to section 20
of the Public Audit Act 2001

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Hon Margaret Wilson MP
Speaker
House of Representatives
WELLINGTON

Madam Speaker

I am pleased to forward this report to you for presentation to the House of Representatives pursuant to section 20 of the Public Audit Act 2001.

Yours faithfully

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke.

K B Brady
Controller and Auditor-General

Wellington

2 June 2006

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This report is our annual report on the audits of the local government sector conducted for 2004-05. Most of these audits were of regional and territorial local authorities and their subsidiary entities.

All regional and territorial local authorities reported under the full requirements of the Local Government Act 2002 (the 2002 Act) for the first time for the year ended 30 June 2005. This meant all councils reported actual performance against their first Long-Term Council Community Plan (LTCCP), adopted in either 2003 or 2004. This had a significant effect on their annual reporting responsibilities.

Purposes of this report

The purposes of this report are to:

- tell Parliament and the local government sector about matters arising from carrying out our role as auditor of the sector;
- describe examples of our expectations of best practice on various matters of financial management and reporting, governance, and administration;
- describe our preparation for the audit of the 2006-16 LTCCP for adoption by 30 June 2006, and our findings to date; and
- provide a brief outline of our focus regarding local government issues for the coming year, and the findings from some performance audits undertaken during the year that affect local government.

Contents of this report

The contents of this report are grouped into 7 parts, with one appendix:

- Part 1 (pages 7 to 33) consists of 7 articles that report on matters that arose during the course of the 2004-05 annual audits. We have again identified those entities on whose reports we have issued a non-standard audit report.
- Part 2 (pages 35 to 51) contains one article that describes the audit process, and considers our findings to date as local authorities prepare for the 2006-16 LTCCP.
- Part 3 (pages 53 to 74) consists of 4 articles that deal with other local government issues arising during 2004-05. This section provides commentary on matters for the local government sector to consider relating to the implementation of International Financial Reporting Standards, on some major ratepayer enquiries considered by the Office, and on some issues arising in implementation of the 2002 Act and the Local Government (Rating) Act 2002.
- Part 4 (pages 75 to 78) has one article that updates and reviews Reserve Boards (which manage and control reserve land).

- Part 5 (pages 79 to 80) has one article associated with work undertaken by the Office on the Local Authorities (Members' Interests) Act 1968.
- Part 6 (pages 81 to 86) consists of 3 articles that provide information on a number of performance audits we undertook during the year that affect local government. These cover freshwater management, public private partnerships, and heritage assets.
- Part 7 (pages 87 to 91) has one article that outlines the areas of focus that will affect local government in the Auditor-General's proposed work programme for 2006-07.

Executive summary

The major themes arising from our review of 2004-05 are:

- The local government sector continues to deal with a wide variety of issues.
- The sector has increasingly committed more time and energy preparing for the adoption of an audited LTCCP by 30 June 2006. This was affecting the sector in 2004-05 with the development of community outcomes and planning for the development of LTCCPs. This work reaches conclusion throughout 2005-06.
- Our work with the sector in early 2005-06, through the "self-assessment" approach to planning and the "key controls" review, show the sector's readiness to complete robust LTCCPs is variable. Audit work in early 2006 shows there is potential for improvement in 2 core areas of the LTCCP:
 - specifying levels of service to be provided to the communities in response to their desires expressed through the community outcomes process; and
 - developing an effective performance reporting framework.
- We are committed to the preparation of a report to Parliament after 30 June 2006, on our audit process and observations from the audit of 2006 LTCCPs.
- Ratepayer enquiries have, to a large extent, focused on the consultation and decision-making processes of local government. This is to be expected as councils adjust to the Local Government Act 2002.

Part 1

Issues from the 2004-05 audits

1.1 Review of the 2004-05 year

- 1.101 During 2004-05, local authorities began preparing their Long-Term Council Community Plan (LTCCP) for 2006-16. They also prepared annual reports for the year 2004-05 under the provisions of the Local Government Act 2002 (the 2002 Act). For 77 authorities, this was the first time they were required to report under the full accountability requirements of the 2002 Act. It is also the second year of the implementation of the Local Government (Rating) Act 2002. This report provides information on the range of issues that arose during the year.
- 1.102 The main focus of our local government team during 2004-05 has been preparing for the audit of the LTCCP. Our preparation has included developing a methodology, training the auditors, briefing the local government sector, fully participating in sector training seminars, and providing ongoing support and a consistency check on the process as our auditors begin audit field work.
- 1.103 Response to legislative change continues to affect our work and the sector. For instance, the sector has indicated that changes to the Resource Management Act 1991, Drinking Water Standards, the new Building Act 2004, and planning for the implementation of dog control legislation have placed significant pressure on them, particularly in combination with the ongoing effects of the 2002 Act.
- 1.104 Important changes in the accounting and auditing profession also affect local government, particularly the adoption of New Zealand equivalents to International Financial Reporting Standards known as NZ IFRS.¹
- 1.105 The public sector must adopt NZ IFRS for accounting periods beginning 1 January 2007. For practical reasons, the local government sector will comply one year earlier. The start of the comparative year in which opening balances need to be restated using NZ IFRS was 1 July 2005. This puts additional pressure on the sector at an already busy time.
- 1.106 We continue to receive increasingly complex requests from ratepayers seeking inquiries by us under the Public Audit Act 2001. We expect the level and complexity of requests to continue to increase during the coming years as the public and the sector alike become familiar with the 2002 Act. Many ratepayers demonstrate a sound understanding of the key principles behind the 2002 Act.

¹ See paragraph 3.101 for an explanation of NZ IFRS.

1.2 Timeliness of annual reporting

- 1.201 The annual reports of local authorities provide information that assists communities to assess their performance. For this process to be effective, the information must be comprehensive and timely.
- 1.202 Each year, we examine the timeliness of annual reporting by local authorities.
- 1.203 Under the Local Government Act 2002 (the 2002 Act), each local authority is required to:
- complete and adopt its annual report, containing audited financial statements, within 4 months of the end of the financial year (by 31 October 2005 for the 2004-05 financial year);
 - make its annual report publicly available within one month of adopting it (by 30 November 2005 for the 2004-05 financial year); and
 - make a summarised version of the information contained in its annual report publicly available within one month of adopting the annual report (by 30 November for the 2004-05 financial year).²
- 1.204 The timing of the preparation and publication of the audited annual reports is determined by the local authority within the requirements of the 2002 Act. The audit process fits into the approach determined by the local authority.

Completion and adoption of annual reports

- 1.205 Figure 1.1 shows the dates by which the audits of local authorities were completed, as an indication of when local authorities were in a position to adopt their annual reports. The Figure shows that all except 3 local authorities were in a position to adopt their annual reports within the statutory time limit.
- 1.206 The results for October and November 2005 were affected by the changed reporting deadlines affecting most local authorities for the first time. Nine of the 86 local authorities had elected to prepare a Long-Term Council Community Plan in 2003 and therefore were required to report under the new provisions of the 2002 Act in 2003-04. This meant that they were required to complete and adopt their 2003-04 annual report by 31 October 2004. For those authorities, there was no change to the timing for their 2004-05 report. For the remaining 77 authorities, the 2004-05 year was the first time they were required to meet the new timing provisions. In the previous year, the date for completing and adopting 2003-04 annual reports had been 30 November 2004 – that is, one month later.

² The actual timing required by any local authority was determined by when they completed and adopted their annual report. The dates noted in paragraph 1.203 represent the outside limits that these tasks needed to be accomplished by.

Figure 1.1
Date of completing local authority audits

Date completed	Number of local authorities	
	2005	2004
1 July to 31 August	2	3
1 to 30 September	19	17
1 to 31 October	62	23
Subtotal: Number in a position to meet the statutory deadline for 2004-05	83	Not applicable
1 to 30 November	1	41
After 30 November	1	2
Not completed at time of this report*	1	-
Totals	86	86

* Invercargill City Council.

Public release of annual reports

1.207 We also reviewed the timing of the release of annual reports to the community. The 2002 Act requires annual reports to be released publicly no later than one month after they have been adopted, and the performance of local authorities in meeting this deadline is shown in Figure 1.2.

Figure 1.2
Public release of 2004-05 annual reports

Period after adopting annual report	Number of local authorities
0-5 days	18
6-10 days	9
11-20 days	15
21 days to one month	37
Subtotal: Number meeting statutory deadline	79
One month to 50 days	5
81 days	1
Not released at time of this report*	1
Total	86

* As Invercargill City Council has not adopted its annual report to date, the subsequent actions of the release of the report and its summary have also not been completed.

Public release of summary annual reports

- 1.208 We also reviewed the timing of the release of audited summaries of annual reports. The 2002 Act requires both the audited annual report and an audited summary to be released within one month after the annual report has been adopted. We view release of the audited summaries as an important part of the accountability cycle for local authorities. These summaries are the most accessible information for general readership and the easiest document to circulate and make widely available.
- 1.209 Figure 1.3 shows the performance of local authorities in releasing their annual report summaries.

Figure 1.3

Public release of audited summaries of 2004-05 annual reports

Period after adopting annual report	Number of local authorities
0-5 days	4
6-10 days	3
11-20 days	13
21 days to one month	53
Subtotal: Number meeting statutory deadline	73
One month to 40 days	6
41- 50 days	3
51-109 days	3
Not released at time of this report	1
Total	86

Summary

- 1.210 Although an improvement on 2003-04, the performance of local authorities in accounting effectively to their communities is a mixed one.
- 1.211 The timeliness of annual reporting by local authorities to their communities improved during 2004-05 largely due to the tighter statutory timeframes. Generally, the local authorities that adopted annual audited annual reports in November 2004 brought their reporting forward by the required one month. While few other voluntary gains were made, most local authorities adequately adjusted their procedures to complete and adopt their annual report within the prescribed statutory limit and then to release that information to the public.
- 1.212 We note that 12 local authorities with an adopted annual report had not complied with the requirement to make a summary report available by the

statutory deadline. It is important to recognise that accountability is not achieved until the audited information is released to ratepayers, preferably in a summarised, user-friendly form. A number of local authorities will need to give this matter greater attention in 2005-06 to ensure that their reporting not only includes prompt audit clearance but also informs their communities promptly.

- 1.213 We will continue to monitor the performance of local authorities in meeting these important accountability responsibilities.

1.3 Reporting on effects of activities in the annual report

- 1.301 The Local Government Act 2002 (the 2002 Act) contains a comprehensive reporting regime for all local authorities. The audited annual report of each local authority is a prime means of that reporting. Local authorities are required to plan for, and report on, the effect of their activities on the social, economic, environmental, and cultural well-being (the 4 well-beings) of their local communities.³
- 1.302 The 2002 Act requires the Auditor-General to report on whether a local authority has complied with these requirements.⁴
- 1.303 In this article, we review how all local authorities approached these requirements. We focus on the reporting requirements that are new, and on clause 15(d) and (f) of Schedule 10 in particular.

Background

- 1.304 In the decision-making process, councils are required to identify and consider how options affect the 4 well-beings, community outcomes, and future generations. Recording this process appropriately, and linking it to the performance management framework, substantially enhances a council's ability to identify and report on the effects of the activities it undertakes. An integrated planning, decision-making, and reporting framework is critical to meeting the requirements of the 2002 Act.
- 1.305 We recognise that, in order to be able to meet this requirement, councils will need to develop a comprehensive framework that links community outcomes monitoring, council decision-making, and council performance against service levels to reporting that includes the identified effects of activities on the 4 well-beings. It is clear from our previous report⁵ and the annual reports of local authorities that this is a challenge. It is an area in which we would expect to see ongoing development.
- 1.306 We would expect monitoring frameworks for community outcomes to be part of the Long-Term Council Community Plan (LTCCP).⁶ We would expect the report on progress, which needs to be not less than once every 3 years, to be published at a time when the information it contains will be useful to the community for the development of the next LTCCP.
- 1.307 Figure 1.4 demonstrates the related requirements between the LTCCP and annual report planning and reporting.

3 These requirements are in clauses 2 and 15 of Schedule 10.

4 Section 99(1)(b).

5 *Local Government: Results of the 2003-04 Audits*, parliamentary paper B.29[05b], pages 61-87.

6 Schedule 10, clause 1(g).

Figure 1.4**Related requirements in the LTCCP and annual report for each group of activities**

LTCCP (Schedule 10, clauses 1 and 2)	Annual report (Schedule 10, clause 15)
Identify activities within the group of activities.	Identify activities within the group of activities.
Identify the rationale for delivery of the group of activities (including the community outcomes to which the group of activities primarily contributes).	Identify the community outcomes to which the group of activities primarily contributes.
State what measures will be used to assess progress towards the achievement of community outcomes. State how the local authority will monitor and report on the community's progress towards achieving community outcomes (not less than once every 3 years).	In relation to each group of activities, report the results of any measurement undertaken during the year of progress towards the achievement of outcomes.
Outline any significant negative effects any activity (within the group of activities) may have on any of the 4 well-beings.	Describe any identified effects that any activity within the group of activities has had on the 4 well-beings.
Identify additional or replacement assets needed to meet levels of service and/or demand (summary of clause 2(d)).	Describe any significant acquisitions or replacements of assets, the reasons why, and the reasons for any variance from the LTCCP.

Focus for review of 2004-05 annual reports**Identification of effects on the 4 well-beings, and significant acquisitions disclosure**

1.308 Last year, we reviewed how the 9 local authorities that prepared annual reports under the 2002 Act for the year ended 30 June 2004 approached the annual report requirements of clause 15 of Schedule 10. As shown in Figure 1.4, this clause requires an annual report to:

- identify the activities within the group of activities;⁷
- identify the community outcomes to which the group of activities primarily contributes;⁸
- report the results of any measurement undertaken during the year of progress towards achieving the community outcomes to which each group of activities relates;⁹ and
- describe any identified effects that any activity within each group of activities has had on the 4 well-beings.¹⁰

7 Schedule 10, clause 15(a).

8 Schedule 10, clause 15(b).

9 Schedule 10, clause 15(c).

10 Schedule 10, clause 15(d).

- 1.309 In addition, the annual report must contain:
- an audited statement comparing the actual and intended levels of service provision, and the reasons for any variance between the actual and the expected levels; and
 - an audited statement describing any significant acquisitions or replacements of assets undertaken during the year, giving the reasons for those acquisitions or replacements, and also giving the reasons for any significant variation between planned and actual acquisitions and replacements.¹¹
- 1.310 In 2004, we assessed reporting under clause 15(d) and (f) of Schedule 10 as being the least well done of the annual report requirements.
- 1.311 As with most new planning and accountability provisions, we expected councils to show progress towards meeting these accountability provisions. We found a variety of approaches to meeting these requirements. Several councils indicated that they were undertaking further work, particularly in identifying effects on the 4 well-beings.
- 1.312 We made further comment in our 2004 report, noting the newness of the requirement, our recognition of its developing nature, and our hope that, in assessing the “early 9” (the local authorities that prepared annual reports under the 2002 Act for the year ended 30 June 2004), other councils would be assisted in their reporting in subsequent years.¹²
- 1.313 For the annual reports for 2004-05, we considered the responses of all councils to the requirements of clause 15(d) and (f) of Schedule 10; in particular, the 77 councils for which this was a first time.

Description of identified effects on the 4 well-beings

What is required

- 1.314 While the 2002 Act requires reporting against the 4 well-beings, it does not specify how this is to be done.
- 1.315 A council therefore needs to develop the framework within which it makes decisions and determines how well its own activities and services contribute to community outcomes. It also needs to be able to report on the effects of these activities.
- 1.316 It can be challenging for a council to both identify and report on the range of effects of an activity. Some traditional activities, such as water management and building roads, are generally seen as having positive effects, and it can be

¹¹ Schedule 10, clause 15(e) and (f).

¹² *Local Government: Results of the 2003-04 Audits*, parliamentary paper B.29[05b], pages 77-83.

a challenge to analyse and describe the range of effects these activities may generate for each well-being.

What local authorities did

- 1.317 Most local authorities provided information on what their activities were, why they undertook those activities (that is, they identified the activities' contribution to one or more community outcomes), how the activities were measured, and progress towards the objective.
- 1.318 Many councils provided a discussion on the effects of their activities. However, many of the effects identified appear to be more a repetition of council's aim or objective for that activity rather than an identified effect. It is necessary that councils distinguish between an identified effect of undertaking an activity, as required by the 2002 Act, and the effect they desire that activity to have.
- 1.319 Consistent with reporting against their LTCCP, which requires local authorities to outline any significant negative effects of their activities, a small number of authorities have identified only negative effects in their subsequent annual report. Although in some of the reports these negative effects were thoroughly discussed, we consider that none of the reports that identified only negative effects met the requirements of the 2002 Act, which requires an annual report to report any identified effects.
- 1.320 A few local authorities identified both negative and positive effects. These were presented as either written commentaries or a table.
- 1.321 Some local authorities provided general statements about the effects of their activity. In our opinion, a statement to the effect that "this activity contributes to economic and social well-being through protecting the safety of residents" is not describing an identified effect.
- 1.322 A small number of councils worked through their activities and provided information on the effect each activity had on each well-being. For example, some water management systems do not support certain environmental outcomes, or some roading activity can have detrimental effects on the social cohesion of a community.
- 1.323 Other councils provided a report on each well-being, outlining the council's contribution and the effect of council activity on these areas.
- 1.324 A few councils noted that they were developing the links between the outcomes, rationale, activity, performance measure, targets, and identification of effects for the 2006-16 LTCCP.

Comment on identification of effects

- 1.325 We noted in our report last year¹³ that councils need to ensure that their reporting on progress towards community outcomes is more than an action update. The same comment can apply to the identification of effects.
- 1.326 Enhancements that could be made in order to meet those requirements include:
- moving from a restatement of council aims to identifying effects;
 - moving towards specific consideration and analysis of the effects of activities rather than generalised statements; and
 - ensuring that the performance management framework is an integrated package that links community outcomes and the rationale for council activity to performance measures, service levels, and targets. With such a linked framework, it is easier for councils to report on progress towards outcomes (as required by clause 1(g) of Schedule 10) and the identified effects of activities (as required by clause 15(d) of Schedule 10).

Conclusion

- 1.327 Overall, most councils provided clearly accessible information about what the council did, how the community outcome was enhanced, why it undertook the activity, and how it measured performance. While this meets accountability requirements for the clear reporting of their activities back to their community, further work is required in clearly reporting the identified effects of those activities.

Statement of acquisition and replacement of assets

What is required

- 1.328 The LTCCP – as a plan – creates the framework against which the annual report discloses actual results. This includes how assets will be maintained, replaced, and renewed, and how costs will be met.¹⁴
- 1.329 Significant asset acquisitions and replacements are noted in planning financial forecasts, and are represented in the budget sections of the LTCCP.
- 1.330 The annual report must include the information listed in paragraph 1.308.

What local authorities did

- 1.331 Some councils reported significant variations between the LTCCP and the actual asset programme. Few provided information on the reasons for these variations.

¹³ *Local Government: Results of the 2003-04 Audits*, parliamentary paper B.29[05b], page 80.

¹⁴ Schedule 10, clause 2(1)(d).

- 1.332 Those that did provide information about, and reasons for, the variations did so either as notes to the Financial Statements or, more generally, in the Statement of Service Performance as part of reporting on the group of activities.
- 1.333 In some cases, major variations were noted in the mayor's or chief executive's report.
- 1.334 At least one council provided a clear list of all assets acquired and disposed of (with reasons why) in one section that provided a clear snapshot of all council activity in this area.

Comment on statements about significant asset acquisition and replacement

- 1.335 We consider that providing high-level information on significant asset decisions (for instance, signalling either delay or bringing forward major asset acquisition) in the mayor's report is useful for the public. However, the mayor's report is not subject to audit, and cannot include all the information required by the 2002 Act.
- 1.336 Where variations were reported in the Financial Statements section, they were often aggregated. In our view, this does not provide accessible information to the community about specific actions undertaken by the council for significant assets.
- 1.337 As we noted last year, putting financial and asset information in the Statement of Service Performance has the advantage of keeping information on one topic together in each group of activities. However, unless the variation and its reason are also clearly signalled in that section, it is not easy to determine the difference between the LTCCP or annual plan projections and the actual expenditure or acquisitions undertaken during the year.

Conclusion

- 1.338 We are aware that, for most local authorities, the 2004-05 annual report was their first report that was required to meet all the new reporting requirements of the 2002 Act. For many, it required new reporting on their performance. We will be working with our auditors to help the sector become more aware of the requirements in the future, and to facilitate enhanced reporting of performance.

1.4 Asset revaluations

- 1.401 During the year, both local authorities and our auditors had to consider if there had been a material effect on the valuations of local authority asset infrastructure as a result of increasing prices, particularly construction prices, in the sector.
- 1.402 Entities need to ensure that property, plant, and equipment that is recognised at “fair value” is done so in accordance with paragraph 7.1 of Financial Reporting Standard No. 3: *Accounting for Property, Plant and Equipment* (FRS-3). This stipulates that property, plant, and equipment must be revalued with enough regularity so that no item is included at a carrying value that is materially different from its fair value. At a minimum, revaluations must be carried out at least every 5 years.
- 1.403 The 5-year minimum is one circumstance that would require revaluation of property, plant, and equipment that is recognised at fair value. For example, if a valuation was carried out for a particular item or class of property, plant, and equipment as at 31 March 2001, then the latest date by which the next valuation would need to be carried out is 31 March 2006.
- 1.404 A similar circumstance is where a shorter revaluation cycle is part of an accounting policy for revaluing property, plant, and equipment. A typical shorter revaluation cycle is 3 years. The latest date by which a valuation would need to be carried out is 3 years after the previous revaluation.
- 1.405 However, both of the above circumstances are secondary to the core principle concerning revaluation of an item or class of property, plant, and equipment. This core principle is that, if the fair value of property, plant, and equipment differs materially from its carrying value, then it should be revalued. The crucial determination is whether or not there are sufficiently reliable indicators of a material movement between carrying value and fair value. We recognise this is not straightforward, because it is a matter of professional judgement whether there is likely to have been a material movement in value either up or down.
- 1.406 During the 2004-05 financial year, the construction sector was experiencing a tightening in supply and this led to higher contract prices – in some cases, up to 30% higher – than in previous years. These increased contract prices were expected to have a significant effect on the fair value assessment of local authority infrastructure and, in the absence of any other relevant matter, require revaluation of the assets regardless of their anticipated revaluation cycle.
- 1.407 Where the effect of price changes is quite high (known as “material”), an entity will probably need to revalue assets before the date normally scheduled in their revaluation cycle. This principle is outlined in paragraph 7.5 of FRS-3.

- 1.408 In local authorities, as with other entities, the value of infrastructure is an important factor in determining the depreciation provision. It also provides some of the base information for many asset management plans. Reliable, up-to-date information is important to ensure compliance with generally accepted accounting practice and to provide a sound basis for strategic planning.
- 1.409 The possibility of more frequent revaluations to reflect fair asset values in advance of normal revaluation cycles is also within the new New Zealand equivalent to International Accounting Standard 16: *Property, Plant and Equipment*.
- 1.410 Most local authorities are indicating that they will revalue during the 2005-06 financial year – even if only because many are at the end of the revaluation cycle. However, should the events of late 2004-05 repeat themselves in the future, local authorities will need to consider revaluation of property, plant, and equipment in advance of the completion of their next cycle.
- 1.411 It is recognised that the revaluations resulting from upwards price changes have the potential to affect the level of rating set by a local authority. An upwards revaluation will impact on a local authority's total expenditure (through increasing the depreciation charge). In this situation, councils need to consider if they have sufficient resources available to undertake the level of renewals needed to maintain the integrity of their infrastructure asset base.
- 1.412 While revaluations in line with a local authority's revaluation cycle will have this effect, there is the possibility of a more regular effect on rating levels if "off-cycle" revaluations are required due to circumstances similar to those that arose late in 2004-05.

1.5 Council-controlled organisations

- 1.501 The Local Government Act 2002 (the 2002 Act) extended the accountability regime for council-controlled organisations (CCOs) to include non-profit entities such as charitable trusts and incorporated societies associated with local authorities. Formerly, only local authority trading enterprises were covered. This affected the accountability regime for about 100 trusts and incorporated societies associated with local authorities.
- 1.502 Since 1 July 2003, these entities have had to comply with the accountability and reporting requirements for CCOs under the 2002 Act, which are generally more complex than those that applied under their trust deeds or rules.
- 1.503 The Auditor-General is currently the auditor of 103 council-controlled trading organisations and 95 non-profit CCOs. This article comments on issues and developments in the non-profit CCO sector for the year ended 30 June 2005, including:
- reporting non-financial performance; and
 - auditing exempt CCOs.

Reporting on performance of council-controlled organisations

- 1.504 An important part of the accountability framework for CCOs in the 2002 Act is the requirement to prepare a statement of intent at the start of the reporting period. The purpose of the statement of intent is to provide:
- a public statement of the activities and intentions of the CCO for the year, and the objectives to which those activities will contribute;
 - an opportunity for the council to influence the direction of the entity; and
 - a basis for the entity's governing body to be accountable to the council for the entity's performance.
- 1.505 A CCO must include information in its annual report about its achievements against that statement of intent, including:
- a comparison of the performance of the entity with the statement of intent; and
 - an explanation of any material variances between that performance and the statement of intent.
- 1.506 As well as auditing the financial statements of a CCO, we are required to report on the performance targets and other measures by which performance was judged against the entity's objectives. In other words, the audit opinion must cover the

entity's report on its non-financial performance, measured against its statement of intent (performance information).

- 1.507 These are new requirements for many non-profit CCOs. Such organisations had a one-year exemption from these requirements under transitional provisions in the 2002 Act. This covered the period beginning on 1 July 2003 and ending on 30 June 2004.
- 1.508 All CCOs had to have a statement of intent in place for the year beginning on 1 July 2004. They were also required to include performance information in their annual reports for the year ended 30 June 2005, unless the council had exempted the CCO under section 7 of the 2002 Act (exemptions are discussed below in paragraphs 1.516 to 1.521).
- 1.509 While many CCOs met the new requirements, several did not include performance information in their annual reports because they did not have a statement of intent in place for the year beginning on 1 July 2004. In some cases, the CCOs were inactive (for example, name protection companies). While there may be little point in such entities producing a statement of intent, the requirement applies unless the council has exempted the CCO.
- 1.510 We are required to audit performance information in the annual reports of CCOs. We issued qualified audit opinions for several active CCOs for their failure to include performance information in their annual reports. This was because they did not have a statement of intent in place to report against. We were particularly concerned where active CCOs also did not have a statement of intent in place for the following period beginning on 1 July 2005.
- 1.511 In the case of inactive CCOs (such as name protection companies or dormant companies that were not engaged in any activity during the year), we did not qualify the audit report,¹⁵ provided the entity had disclosed the breach of law in its financial statements.
- 1.512 A small number of CCOs were established part way through the financial year and did not prepare statements of intent. They therefore did not include performance information in their annual reports.
- 1.513 In the case of CCOs established or acquired during the financial year, we have suggested to the Department of Internal Affairs that the 2002 Act be amended to provide that:
- a CCO established in the first 6 months of a financial year should prepare a statement of intent; but
 - a CCO established in the latter 6 months of a financial year should not have to prepare a statement of intent for that period.

15 See paragraph 1.706 for an explanation of a qualified opinion.

1.514 Overall, we found mixed compliance by the CCO sector with this new requirement for the year ended 30 June 2005. Our perception is that some councils and CCOs have not yet come to grips with the new accountability requirements for CCOs.

1.515 We were surprised that councils were not using the power in the 2002 Act to exempt small non-profit CCOs from the accountability regime more actively. We have asked our appointed auditors to discuss this option with councils. We discuss the exemption power further below.

Exemptions for council-controlled organisations

1.516 Section 7 of the 2002 Act provides for certain entities to be exempted from the requirements for CCOs. There are 2 ways in which a CCO may be exempted. For instance:

- A CCO that is already subject to appropriate accountability under its own Act can be exempted by the Governor-General on a recommendation from the Minister of Local Government. The Minister must be satisfied that the entity's accountability under its own Act is appropriate for the purposes of the 2002 Act.¹⁶
- Small non-profit CCOs can be exempted by a local authority. The 2002 Act does not define "small", but a local authority cannot exempt a council-controlled trading organisation. When exempting a non-profit CCO, the local authority must consider the nature and scope of the activities provided by the CCO, and the costs and benefits, if an exemption is granted, to the local authority, the CCO, and the community.

1.517 A council may revoke an exemption at any time and must review any exemption every 3 years.

1.518 The power for councils to exempt small CCOs from the requirements was included in the 2002 Act to address concerns raised about compliance costs for small non-profit entities. Once exempted under section 7 of the 2002 Act, an entity is not subject to any of the accountability requirements of that Act.

1.519 However, an exemption under the 2002 Act does not affect accountability requirements in other legislation, such as the Incorporated Societies Act 1908 or the Charities Act 2005, or provisions in an entity's own trust deed or rules.

1.520 We are aware that local authorities have made some use of the exemption power in section 7 of the 2002 Act. However, there is scope for greater use of this power, especially in the case of small inactive entities. This would avoid the need for us to qualify future audit reports in respect of failure to provide performance information.

¹⁶ The Otago Museum Trust Board and the Museum of Transport and Technology Trust Board have been exempted by this procedure.

1.521 We have asked our appointed auditors to report to us, as part of the 2005-06 audit, on the extent to which local authorities have used the exemption power in section 7 of the 2002 Act. We intend to report in the future to Parliament on the financial position and activities of the CCO sector, including the extent to which councils are using the exemption power in section 7.

1.6 Disclosure of severance payments

- 1.601 Local authorities are required to disclose information in the annual report about “severance payments” made to the chief executive or other staff. We are required to audit the local authority’s compliance with this disclosure requirement as part of our audit of the information in the annual report.
- 1.602 As well as the disclosure requirement, severance payments are an area of legal, financial, and political risk for local authorities. We need to be satisfied that there are no issues of lawfulness, probity, or waste in the settlement.
- 1.603 The Local Government Act 2002 (the 2002 Act) defines a “severance payment” as –
any consideration that a local authority has agreed to provide to an employee in respect of that employee’s agreement to the termination of his or her employment [emphasis added], *being consideration, whether of a monetary nature of otherwise, additional to any entitlement of that employee to—*
(a) any final payment of salary; or
(b) any holiday pay; or
*(c) any superannuation contributions.*¹⁷
- 1.604 A local authority’s annual report must:
- state the amount of any severance payments made in the year to any person who vacated office as chief executive of the local authority;
 - the number of employees of the local authority to whom severance payments were made in the year; and
 - the amount of every such severance payment.
- 1.605 From the words emphasised above in the definition of “severance payment”, it can be seen that the disclosure requirement is intended to capture payments made for an employee’s agreement to end their employment rather than payments that the employee would be entitled to receive under the employment agreement had they simply resigned or retired. This is confirmed by the reference to payments such as an employee’s final salary payment and superannuation payments, which do not need to be disclosed because the employee would be entitled to those payments regardless of how their employment ended. The focus is on any additional payments negotiated to help reach an agreement for the employee’s departure, rather than on the payments that would normally be due purely as a result of the existing obligations on the employer.
- 1.606 Any payments made because the employee agreed to end their employment and settle the dispute in return for money would fit within the definition of “severance payment” in the 2002 Act and would need to be disclosed. In our experience, such agreements often contain a number of different types of payments, such as

17 Schedule 10, clause 19(2).

payment of the employee's legal fees, a compensatory payment that may be tax-free, and other items such as a payment in lieu of notice.

- 1.607 Our audit report must give our view on each local authority's compliance with all the disclosure requirements for annual reports. If a local authority has not disclosed a severance payment, the fact of non-disclosure would normally be reported in the audit report as a legislative breach. We would also consider making the disclosure ourselves in the audit report. This would depend on the significance of the matter, including the size, nature, and circumstances of the severance payment. In deciding our approach in a particular case, we would take account of any disclosure by the authority in the notes to its financial statements.
- 1.608 To date, we have not made any such disclosures through an audit report.

Confidentiality

- 1.609 Given the disclosure requirement in the 2002 Act, a local authority can expose itself to legal risk by purporting to enter into a confidential employment settlement. Confidentiality is the norm in many employment settlements. A former employee may be able to seek further redress if the authority discloses the amount of a severance payment in breach of confidentiality, even if it does so to comply with its disclosure obligation under the 2002 Act. As public entities, local authorities should actively consider in each case if confidentiality is needed, why, and to what extent the parties could meet any confidentiality obligations they agree to. In particular, when settling an employment dispute, local authorities should consider how they will be able to meet the disclosure requirement in the 2002 Act. One option is to make any confidentiality obligation "subject to any disclosure required or permitted by law". Local authorities need to ensure that, when they use employment law specialists in such negotiations, such specialists are aware of the disclosure requirement in the 2002 Act.¹⁸
- 1.610 Confidentiality agreements can also raise difficulties in the audit process. Some local authorities have been unwilling to give our auditors copies of settlement agreements that are subject to confidentiality. However, the Auditor-General has power under the Public Audit Act 2001 to require public entities to produce any information necessary for the conduct of an audit – including to enable an auditor to review the evidence supporting annual report disclosures, or to consider any probity or other issues. This power overrides any confidentiality agreement or privacy considerations.
- 1.611 Two councils that were reluctant to disclose severance payments in their 2004-05 financial statements were mainly concerned about confidentiality.

¹⁸ For further discussion of confidentiality and other matters concerning severance payments, see our 2002 report *Severance Payments in the Public Sector*, ISBN 0-477-02895-0.

- 1.612 One council was initially unwilling to disclose the amount of various payments made to a former employee. The payments had been made under a confidential agreement, and the council disagreed with our view that the payments were “severance payments” as defined in the 2002 Act. The council’s view was that, because the employee had signalled an intention to resign before a settlement agreement was entered into, the payments were made to settle outstanding employment matters rather than for the employee’s agreement to end their employment. The council intended to disclose the payments in the annual report as remuneration rather than as severance payments.
- 1.613 A settlement agreement negotiated by lawyers acting for each party had recorded the terms on which the employee’s employment would end. This agreement stated that the council agreed to make the payments in consideration for that agreement. Moreover, the payments were not referred to in the employment agreement. Even though the employee had previously signalled an intention to resign, our view was that, based on the wording of the settlement agreement, the payments needed to be disclosed in the annual report as severance payments.
- 1.614 The former employee agreed that the payments needed to be disclosed, but was concerned about the connotations of disclosure as “severance payments” under the 2002 Act. The former employee was concerned about being identifiable as the recipient of the payments, and that their description as severance payments would imply that there had been a performance issue (which was not the case).
- 1.615 The former employee was also concerned that the confidentiality requirement would prevent them from being able to tell their side of the story in the event of public speculation about their identity. This illustrates that confidentiality can be detrimental to both parties in these matters.
- 1.616 Following discussion with our auditor, the council agreed to make separate disclosure of the payments in the annual report. We were satisfied with the disclosure made and did not refer to the matter in our audit report.
- 1.617 Another council had made a severance payment to one employee during the year. Being a small council, it was concerned that disclosing the fact and amount of the payment would mean that the employee could easily be identified. The payment was subject to a confidentiality requirement and had been made following mediation under the Employment Relations Act 2000. The Act applies confidentiality to all aspects of the mediation process. However, it does not override disclosure obligations under other Acts, such as the Local Government Official Information and Meetings Act 1987 or the 2002 Act. We could understand the council’s concern about revealing the identity of the former employee to the community, but the 2002 Act does not permit non-disclosure for that reason. The council reluctantly agreed to disclose the payment.

1.7 Non-standard audit reports issued

Introduction

- 1.701 In this article, we discuss the non-standard audit reports issued on the annual financial reports of entities that are within the local government portfolio.¹⁹
- 1.702 Our discussion covers non-standard audit reports issued during the period 1 April 2005 to 31 December 2005. The shortened reporting period in this article compared to the article in last year's report on local government²⁰ is so that the reporting periods for all non-standard audit reports articles in the future will be aligned.

Why are we reporting this information?

- 1.703 An audit report is addressed to the readers of an entity's financial report. However, all public entities are, in one sense or another, creatures of statute, and are therefore ultimately accountable to Parliament. We therefore consider it important to draw Parliament's attention to the range of matters that give rise to non-standard audit reports.
- 1.704 In each case, the issues underlying a non-standard audit report are drawn to the attention of the entity and discussed with its governing body.

What is a non-standard audit report?

- 1.705 A non-standard audit report²¹ is one that contains:
- a qualified opinion; and/or
 - an explanatory paragraph.
- 1.706 The auditor expresses a qualified opinion, as opposed to an unqualified opinion (which is issued when the auditor is satisfied, in all material respects, with the matters outlined in the financial statements), because of:
- a disagreement between the auditor and the entity about the treatment or disclosure of a matter in the financial report; or
 - a limitation on scope because the auditor has been unable to obtain sufficient evidence to support, and accordingly is unable to express, an opinion on the financial report or a part of the financial report.

19 We report separately on entities that are part of the Crown Reporting Entity.

20 *Local Government: Results of the 2003-04 Audits*, parliamentary paper B.29[05b], pages 11-22.

21 A non-standard audit report is issued in accordance with the Institute of Chartered Accountants of New Zealand Auditing Standard No. 702: *The Audit Report on an Attest Audit*.

- 1.707 There are 3 types of qualified opinions:
- an “adverse” opinion (explained in paragraph 1.712);
 - a “disclaimer of opinion” (paragraph 1.714); or
 - an “except-for” opinion (paragraph 1.715).
- 1.708 In addition, the auditor can issue an opinion that is only partially “adverse” or partially a “disclaimer of opinion”. Usually these opinions are issued where the auditor is able to provide more positive assurance about an aspect or aspects of the entity’s financial report. The summary of non-standard audit reports issued in Figure 1.6 identifies the partial “adverse” and partial “disclaimer of opinions” that have been issued.
- 1.709 The auditor will include an explanatory paragraph (see paragraph 1.716) in the audit report in order to emphasise a matter such as:
- a breach of law; or
 - a fundamental uncertainty.
- 1.710 Auditors are required to ensure that an explanatory paragraph is included in the audit report in such a way that it cannot be mistaken for a qualified opinion.
- 1.711 Figure 1.5 outlines the decisions to be made in considering the appropriate form of audit report.

Adverse opinion

- 1.712 An adverse opinion is expressed when there is disagreement between the auditor and the entity about the treatment or disclosure of a matter in the financial report and, in the auditor’s judgement, the treatment or disclosure is so material or pervasive that the report is seriously misleading.
- 1.713 Expression of an adverse opinion represents the most serious type of non-standard audit report.

Disclaimer of opinion

- 1.714 A disclaimer of opinion is expressed when the possible effect of a limitation on the scope of the auditor’s examination is so material or pervasive that the auditor has not been able to obtain sufficient evidence to support, and accordingly is unable to express, an opinion on the financial report.

Except-for opinion

- 1.715 An except-for opinion is expressed when the auditor concludes that either:
- the possible effect of a limitation on the scope of the auditor’s examination is, or may be, material but is not so significant as to require a disclaimer of

opinion – in which case the opinion is qualified by using the words “except for the effects of any adjustments that might have been found necessary” had the limitation not affected the evidence available to the auditor; or

- the effect of the treatment or disclosure of a matter with which the auditor disagrees is, or may be, material but is not, in the auditor’s judgement, so significant as to require an “adverse” opinion – in which case the opinion is qualified by using the words “except for the effects of” the matter giving rise to the disagreement.

1.716 An except-for opinion can be expressed when the auditor concludes that a breach of statutory obligations has occurred and that the breach is material to the reader’s understanding of the financial statements. An example of this is where a local authority subsidiary has breached the requirements of the Local Government Act 2002 because it has not prepared a statement of intent and it is therefore unable to prepare performance information that reflects its achievements measured against performance targets.

Explanatory paragraph

1.717 In certain circumstances, it may be appropriate for the auditor to include in the audit report additional comment, by way of an explanatory paragraph, to emphasise a matter that is regarded as relevant to a reader’s proper understanding of an entity’s financial report.

1.718 For example, it could be relevant to draw attention to an entity having breached its statutory obligations in respects of certain matters where that breach may affect or influence a reader’s understanding about the entity. In this situation, the audit report would normally draw attention to the breach only when the entity has not clearly set out the breach in its financial statements.

Summary of the non-standard audit reports issued

1.719 Figure 1.6 summarises the non-standard audit reports issued during the period 1 April 2005 to 31 December 2005 for entities within the local government portfolio. The Appendix on pages 93-101 provides the details of those audit reports.

1.720 No disclaimer of opinions or partial disclaimer of opinions were issued during the period.

Figure 1.5
Audit report options

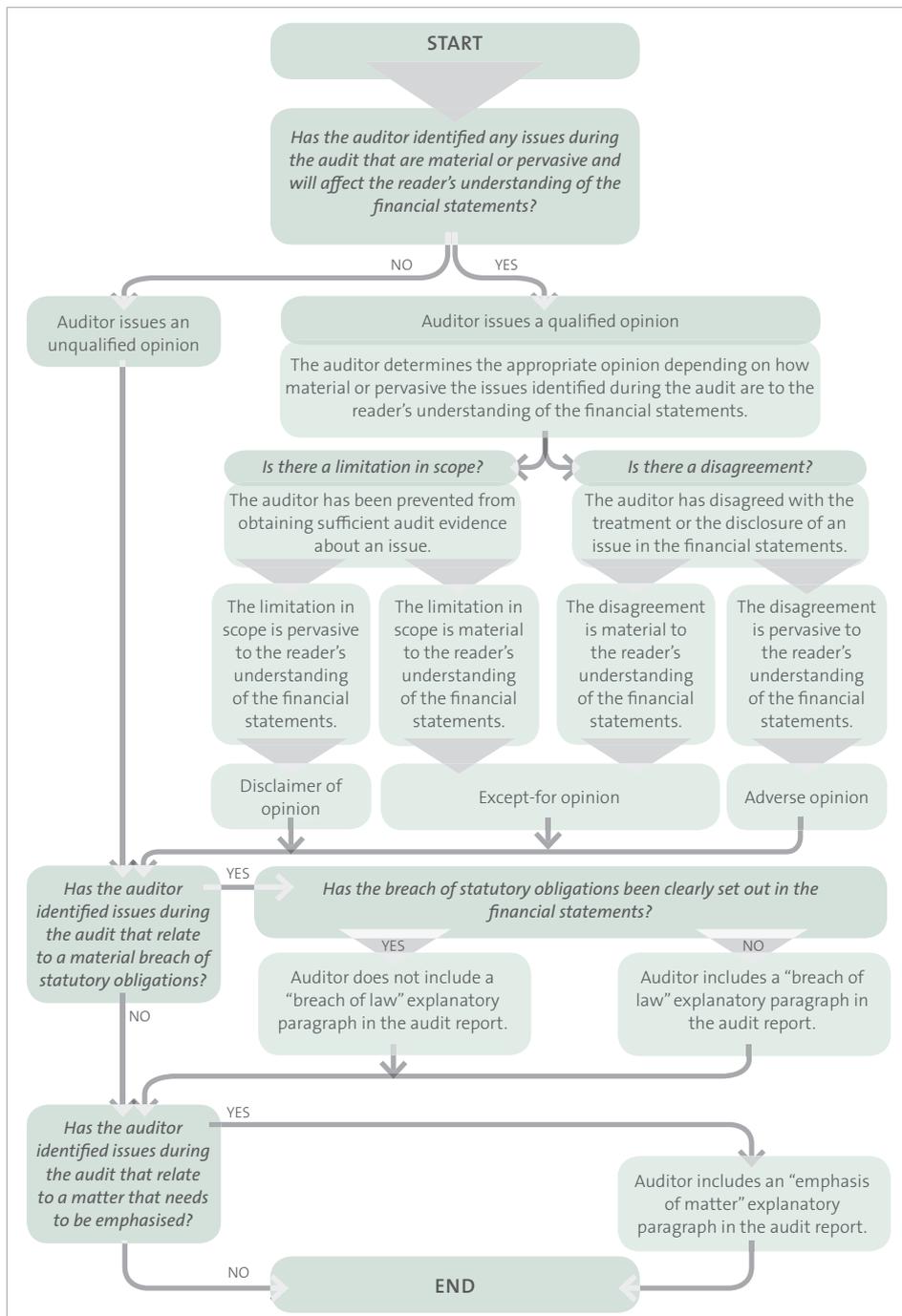


Figure 1.6
Summary of non-standard audit reports 1 April 2005 to 31 December 2005

Name of entity	Full adverse opinions	Partial adverse opinions	Except-for opinions	Explanatory paragraphs
Central Hawke's Bay District Council				X
Whangarei District Council and Group				X
Museum trust boards				
Southland Museum and Art Gallery Trust Board Incorporated	X			
The Museum of Transport and Technology Board	X			
Wairarapa Cultural Trust		X		
Otago Museum Trust Board		X		
Tasman Bays Heritage Trust Incorporated		X		
Whangarei Art Museum Management Group Trust			X	
Council-controlled organisations				
Advance Whangarei Limited			X	
Bond Contracts Limited			X	
Carparking Joint Venture			X	
Hawke's Bay Economic Development Trust			X	
Invercargill Community Sports and Recreation Trust			X	
Marton Aquatic and Leisure Trust			X	
North Shore Domain and North Harbour Stadium Trust Board			X	
Richmond Pool Charitable Trust			X	
Royal Wanganui Opera House Board			X	
S J Ashby Boatbuilders Limited			X	
Transwaste Canterbury Limited and Group			X	
Waimate Medical Centre Limited			X	
Waste Disposal Services			X	
Whangarei Tourism Trust			X	
Cooks Gardens Trust Board				X
Far North Developments Limited				X

Name of entity	Full adverse opinions	Partial adverse opinions	Except-for opinions	Explanatory paragraphs
Hawke's Bay Tourism Trust				X
Invercargill City Charitable Trust				X
RDC Holdings Limited				X
Stratford District Economic Development Trust				X
Venture Taranaki Trust				X
Fish and game councils				
North Canterbury Fish and Game Council			X	
West Coast Fish and Game Council			X	
Administering bodies				
Okuru Public Hall Board	X			
Ngunguru Reserve Board				X
Airport companies				
Whangarei District Airport				X
Cemetery trustees				
Mangere Cemetery Board				X
Pihama Cemetery Trustees				X
Sinking fund commissioners				
Auckland Regional Council Sinking Funds Commissioner				X
Other local government entities				
Mapiu Domain Board (Mapiu Recreation Centre)			X	
Matata Recreation Reserve Board			X	
Ticket Direct Central			X	
South Canterbury Rural Fire District Committee			X	
Village Pool Charitable Trust			X	
Waikouaiti Events and Cultural Centre and Town Park Trust			X	
Whatitiri Domain Board			X	
America's Cup Village Limited and Group				X
Cup Property Limited				X
Cup Village 2000 Limited				X

Name of entity	Full adverse opinions	Partial adverse opinions	Except-for opinions	Explanatory paragraphs
Cup Village NZ Limited				X
New Zealand Cup Village Limited				X
New Zealand Mutual Liability Riskpool				X
Nga Tapuwae Community Facilities Trust				X

Part 2

The process for auditing Long-Term Council Community Plans

2.1 Preliminary planning and risk identification

Introduction

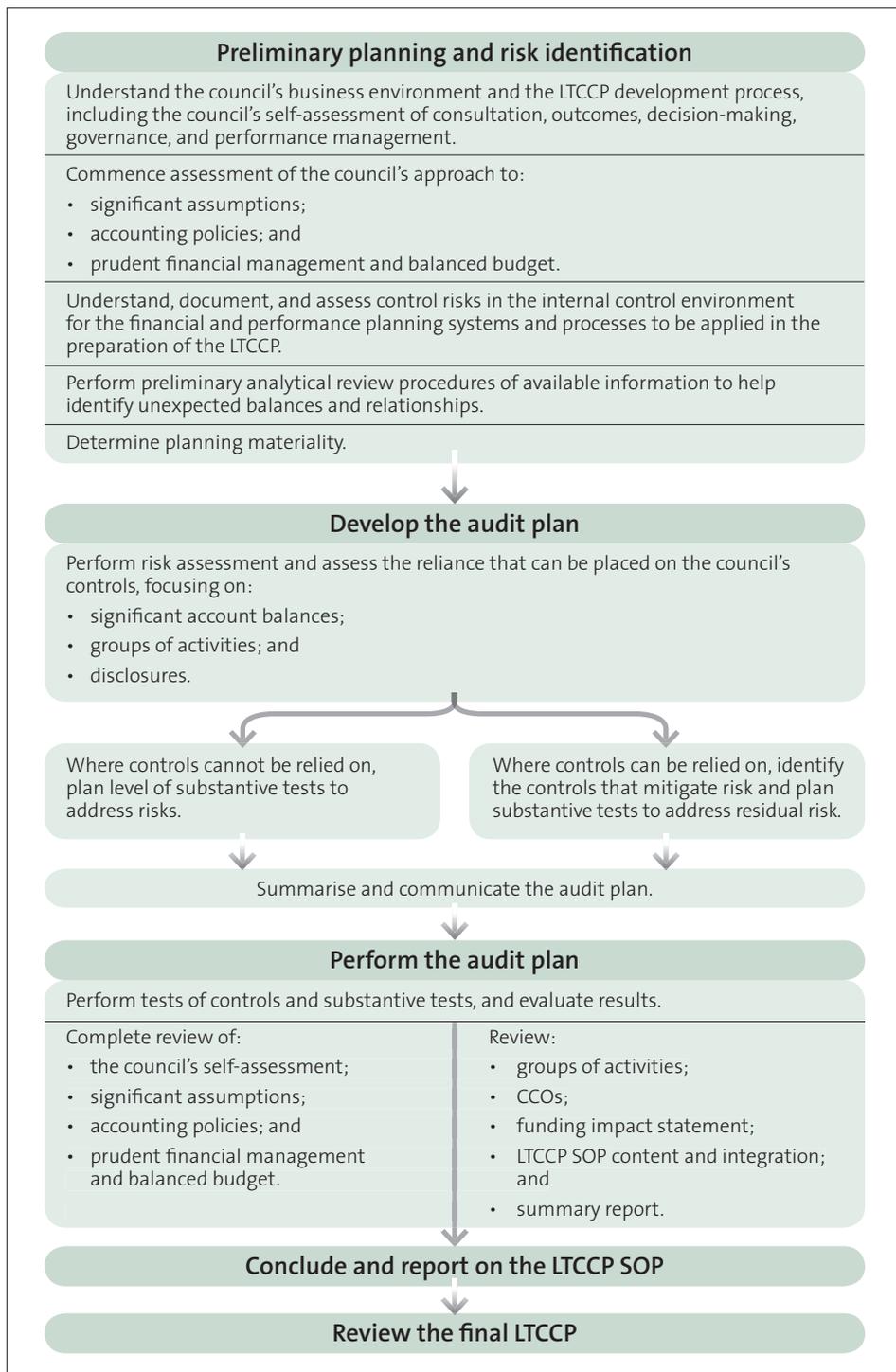
- 2.101 From 2006, the Auditor-General has a new statutory duty to issue an opinion on a local authority's draft and final Long-Term Council Community Plan (LTCCP) under sections 84(4) and 94 of the Local Government Act 2002 (the 2002 Act). Councils have been preparing and publishing long-term financial plans since 1996, but the plans have not been required to be audited until this year.
- 2.102 Both the LTCCP and the requirement for it to be audited are unique to New Zealand. While other local government jurisdictions involve auditors in prospective information, the requirement for such an audit is a unique response to the specific legislative arrangements for New Zealand local government in a context of general empowerment.
- 2.103 In this article we set out our approach to the audit of LTCCPs and discuss the potential implications of breaches in the statutory adoption process for the LTCCP.
- 2.104 The article discusses issues arising from our work to date in the preliminary planning and risk identification stage of our audit approach. These issues have been identified through the outcome of 2 pieces of work that we undertook as preparation for the audit of LTCCPs. The first of these was a "self-assessment" exercise that we asked local authorities to complete. We discuss the key results from these self-assessments later in the article. Secondly, our auditors completed a "key controls" review to analyse the controls that councils had in place around the preparation of the LTCCP. The main findings of this work are also reported later in the article.

Our approach

- 2.105 We recognise that the LTCCP is a plan, and that plans, by definition, are not based on information that is certain. However, we also recognise that the LTCCP needs to represent the best knowledge of the local authority of what is intended and required for it to achieve its purpose as a basis for consultation, decision-making, and subsequent accountability. Our work therefore seeks to confirm that prospective financial and other information are the best estimates of the local authority and are reasonably based on the best knowledge of future events.
- 2.106 Our approach¹ consists of 5 main stages, shown in Figure 2.1.

¹ See *Local Government: Results of the 2003-04 Audits*, parliamentary paper B.29[05b], pages 63-76, for further comment on our audit approach.

Figure 2.1
 Five main stages of our LTCCP audit approach



- 2.107 We consider that councils' planning systems are vital to the preparation of a robust LTCCP. We hope that by focusing on systems, rather than only on specific decisions or forecast amounts, good practice will be encouraged and that, over time, this will give communities greater confidence in the robustness and quality of the LTCCP.
- 2.108 The major focus in our work is on the statement of proposal (SOP) for the LTCCP, as this is the main document for public consultation. The SOP is often referred to in the sector as the "draft LTCCP". Our interest in the final adopted LTCCP is primarily to ensure that changes made through consultation and final decisions have been appropriately reflected in the adopted LTCCP. We note that handling such changes can be demanding, where significant changes are made in response to public feedback or when other changes are made between publicly notifying the SOP and adopting the final LTCCP. It has been important that councils and auditors work closely together to carefully manage the timetable for auditing and adopting their final LTCCP.

Potential implications of breaches in the LTCCP adoption process

- 2.109 Given the pressure the local government sector has been under to adopt audited LTCCPs, we formed some preliminary views about the potential effect of breaches in the statutory adoption process for the LTCCP. We specifically considered the effects of a failure to include an audit report or to meet the statutory adoption date of 30 June.
- 2.110 Our view is that it would be preferable to adopt a day or 2 late with an audit opinion, than to adopt in time without an audit opinion, because:
- failing to include an audit report in the SOP or adopted LTCCP would be likely to be a significant failure that would prevent a council doing any of the things set out in paragraph 2.112, including setting rates; whereas
 - failing to adopt the LTCCP by the statutory date could be considered to be more technical in nature, assuming that a council made no decisions of the nature set out in paragraph 2.112 and proceeded as quickly as reasonably practical to adopt the LTCCP.
- 2.111 In addition, the 2002 Act requires a council to have an LTCCP in place at all times, and to adopt the LTCCP before 1 July of the first year in which it is to take effect. While the LTCCP is not a commitment or obligation to do any specific thing, certain decisions can be taken only where they are provided for in the LTCCP.
- 2.112 These include:
- decisions covered by section 97 of the 2002 Act, which include decisions to significantly alter service levels; transfer ownership or control of a strategic asset; or construct, replace, or abandon a strategic asset;

- amendments to the financial policies set out in section 102 of the 2002 Act;
- decisions under section 141 of the 2002 Act relating to the sale or exchange of endowment land; and
- most significantly, the setting of rates, which under section 23 of the Local Government (Rating) Act 2002 must be set by a council in accordance with the relevant provisions of its LTCCP and the funding impact statement.

Effect of a qualified audit opinion

- 2.113 The 2002 Act does not address the question of the effect of a qualified opinion on a draft or final LTCCP or on the consultation process for the SOP. In our view, a qualified audit report on a draft or final LTCCP does not, in itself, invalidate the LTCCP. While a qualified audit report on a final LTCCP is considered significant, it does not affect a local authority's ability to make decisions or set rates.
- 2.114 One of the purposes of the audit requirement is to contribute to the information necessary for communities to assess the quality of the LTCCP, both at the draft stage and after adoption. The audit report forms part of the LTCCP, and we would expect readers to take account of the audit report when making submissions on the plan. A local authority may face increased risk of challenge to its consultation process on the SOP, to the rates set, or to the decisions made under the final LTCCP, depending on the nature of the qualification.
- 2.115 The Auditor-General does not have the power to compel a local authority to change its SOP, but a qualified opinion on a draft LTCCP may lead to changes and improvements in the final LTCCP.

Results of the self-assessment reviews

- 2.116 We developed a methodology to meet our reporting responsibility under the 2002 Act. This involved looking internationally for audit techniques that would help us to effectively address the principles provided to guide councils' judgements in key areas (such as decision-making and consultation) within the general empowerment that the 2002 Act provides.
- 2.117 One of the elements of the methodology we developed is the "self-assessment". While this is an experimental approach, we were aware that mayors and chief executives in the United Kingdom had evaluated self-assessment as the most useful tool used by the United Kingdom Audit Commission in undertaking Comprehensive Performance Assessments of local authorities in a statutory context similar to the 2002 Act. In deciding to use this approach, we consulted, developed, and tested the assessment with sector representatives.

- 2.118 Our purpose for using this approach was to ensure that our audit work would be based on an understanding of the processes that underlie councils' preparation of an LTCCP from a principle-based, governance perspective. This would enable us to:
- provide feedback for auditors, based on our understanding of "reasonableness" reflecting the diversity of councils;
 - identify risks in the council's development of its LTCCP that were relevant to our planning of audit work and that had the potential to affect the nature and content of our opinion and management report; and
 - establish a base of knowledge and information to allow us to assist the sector in the future by developing information to support good practice.
- 2.119 A small group of advisers oversaw our review of councils' self-assessments. These advisers were suggested by Local Government New Zealand and the Society of Local Government Managers because of their knowledge and understanding of the 2002 Act and the operation of councils.
- 2.120 The review involved grouping councils according to their size and scale. These groups had to be large enough to allow generalisation but small enough to be meaningful. We used 6 variables – 3 that were related to external constraints (population, rates to median income, and population to area) and 3 that were related to internal constraints (full-time equivalent staff, debt to equity, and other council income).
- 2.121 We grouped each data variable into 6 groups by looking at their spread. Councils were sorted according to which group they most commonly fell into across all the 6 variables.
- 2.122 We then reviewed each council's self-assessment, and focused on common themes that emerged from the information. These themes were:
- **Consultation** – the range of mechanisms used to engage with a range of stakeholders, how the council's approach to managing consultation is instilled in the organisation, how consultation feedback is captured, involvement of stakeholders at phases of decision-making, the effectiveness of consultation techniques, and methods for engaging with Māori.
 - **Outcomes** – assessment and communication of current state of well-being and trends, engagement of groups and organisations capable of contributing to the achievement of outcomes and monitoring, engagement with the community (including representativeness and inclusivity), community prioritisation and confirmation of the outcomes, and development of monitoring intentions.
 - **Governance** – involvement from councillors and staff, clarity of roles between participants in the process, and relationships and links between policies and maintenance of such relationships.

- **Decision-making** – general processes around the preparation and presentation of decision-making advice that showed consideration of the decision-making requirements of the 2002 Act, controls around information going to councillors and the community, whether or not inconsistent decisions can be identified, and council-based levels of service decisions on appropriate sector-developed good practice.
- **Performance management systems** – whether or not regular performance management information is used to guide council activities and decisions; whether or not there is a logical framework and relationship between community outcomes and service levels; whether or not other sources of information/initiatives are identified and used to manage performance (for example, customer complaints and any other monitoring of well-being).

2.123 We developed group descriptors to help our auditors in planning their audit work, forming opinions, and exercising judgement about the reasonableness of councils' approaches.²

2.124 While the discussion below sets out the main themes that we identified, each council will have provided additional information to allow auditors to assess whether issues have been correctly identified in each instance. The auditors also assess the significance of the information for our audit work, recognising that there may be further information or circumstances that should be taken into account as auditors form their opinions and report to each council.

2.125 Below are the common issues that we identified.

Consultation

2.126 The consultation provisions are an area that has greater emphasis in the 2002 Act compared to the Local Government Act 1974 (the 1974 Act). The provisions require judgement to be used, and rest on consultation practices and principles that have been emerging both in New Zealand and internationally for some time. The 2002 Act therefore reflects the growing expectation of communities to have reasonable opportunities to be heard.

Consultation infrastructure

2.127 In our view, councils generally take their consultation duties seriously and make good endeavours to consult and to make their processes accessible. We were concerned about the responses to basic procedural requirements in only a handful of cases. These included providing responses to submitters about the result of, and reasons for, decisions and whether the council had mechanisms for consulting with Māori. Issues we noted tended to relate to improvements to their existing processes that councils could consider. However, probably because

² The group descriptors and more detail about the process we used are on our website (www.oag.govt.nz).

councils are still becoming familiar with the 2002 Act's emphasis on general consultation obligations (rather than on statutory consultation procedures for specific decisions), in almost 40% of the self-assessments it did not appear that councils had set up the formal internal support to assist staff and elected representatives to ensure that:

- consultation steps are observed, such as considering the significance of issues to decide if, and what type of, consultation may be necessary; and
- the relationship between proposed consultation and decision-making needs is clear.

Options provided in consultation

2.128 Councils need to carefully judge the extent of information about decision options and their associated costs and benefits that they provide in public consultation material.

2.129 Decision-making obligations require councils to seek to identify all reasonably practicable options for achieving the objective of a decision. A consultation principle in section 82(1)(a) of the 2002 Act requires councils to provide persons who may be affected by, or interested in, a matter with relevant information in a manner and format that is appropriate to the preferences and needs of those persons.

2.130 We noted that about a third of councils did not seem to provide much information about the options and the effects of those options in public consultation material. Where option information was provided, there was extensive information about the preferred option and little or none about other options.

2.131 Councils have a leadership role, and it is appropriate for their views to be given in public information. However, it is also important that a reasonable level of coverage is provided so that communities can assess the relative merits of options when providing feedback.

Making effective use of consultation

2.132 One area that we thought councils could consider further is the means by which they evaluate the effectiveness of their consultation. Many councils have expressed concerns both to us and to others about the compliance costs of consultation and the potential for "consultation fatigue" by placing too great a consultation burden on communities. We were therefore surprised that over a quarter of councils did not appear to have taken active steps to assess the effectiveness of their consultation work, in terms of whether the methods used are accessible to the public or whether the community felt it was being consulted on appropriate issues.

- 2.133 We think that councils are right to be concerned and check whether the consultation exercises they undertake are necessary and are as easy as possible for members of communities to participate in. We believe that councils could therefore consider ensuring that they use the information they have already obtained through previous consultation exercises more effectively. They could do this by capturing and maintaining their consultation knowledge and using this to build:
- their awareness of the nature and type of issues that communities wish to be consulted on and those they want their council to “get on with”; and
 - their knowledge about the particular groups and individuals who might be interested in, or affected by, various types of decisions.

Outcomes

- 2.134 Councils were required to undertake a community outcomes process for the first time in 2006. Many councils made extensive and innovative efforts to get widespread and broadly representative community input. We raised questions about the process for community input with fewer than 20% of councils. However, other areas of developing the community outcomes are more challenging – particularly in the context of this first round of LTCCPs. In particular, there has been a debate about what information communities may need to allow them to give well-informed feedback about outcomes and priorities.

Providing contextual information for well-being in communities

- 2.135 Almost half of councils did not appear to have provided communities with information about the social, economic, environmental, and cultural state of their city, district, or region, often because they were concerned that to do so could distort the feedback that communities may provide. In our view, the 2002 Act is clear that the purpose of the community outcomes process is to allow communities opportunities to consider outcomes and priorities in the context of well-being. We therefore think that objective information about current state and trends would be helpful for people wishing to participate.

Liaison with other organisations and groups

- 2.136 We were also concerned that it was not clear in about a quarter of cases if aspects of the requirements of section 91(3) of the 2002 Act, about engagement of other organisations and groups capable of influencing the identification or promotion of community outcomes, had been given effect. We recognise this is an area in which practice is developing and strengthening.

Development of monitoring arrangements

- 2.137 We were surprised that over a third of councils had not completed their community outcomes process at the time we reviewed their self-assessments

(July and August 2005). If councils are to be able to consider how their services can contribute to outcomes, outcome information needs to be in place before the service levels and other underlying information are assessed. It was not clear to us how this sequential development would have been able to occur for some councils. This is likely to have put pressure on these councils, as they would have had to consider a large range of information simultaneously much later in the process of delivering their LTCCP.

- 2.138 Likewise, we were surprised that monitoring intentions for community outcomes had not been developed in some cases. Section 92(1) of the 2002 Act sets out the requirements for local authorities for the monitoring and reporting of progress towards community outcomes, and section 92(2) sets out the obligation to seek the agreement of other organisations to the monitoring and reporting procedures. Clause 1 of Schedule 10 states that the LTCCP must set out how a council will monitor and report on community outcomes. In our view, the potential to develop monitoring intentions at the outcome level should have assisted councils to create a meaningful performance framework for their own service levels by giving a logical flow for performance management and reporting.

Providing for community debate on priorities

- 2.139 We have noticed, as has the local government sector generally, that the community outcomes for many cities, districts, and regions are often broadly similar. However, it appeared from the self-assessments that up to 15% of councils may not have undertaken steps within their outcomes process to allow communities to debate priorities and options, as intended by section 91(2) of the 2002 Act. It may be that using local information and processes that sharpen community and stakeholder attention on current context and trends in setting outcomes and priorities would encourage more local variation to emerge. However, we are also conscious that local variation is not of itself the goal of a community outcomes process.

Our audit obligations in respect of community outcomes

- 2.140 The community outcomes process does not form part of the LTCCP, and is therefore not directly covered by our audit opinion. Rather:
- the LTCCP is required to include information about the outcomes, the process by which they were developed, how they are to be monitored, and how the council's activities will contribute to their achievement; and
 - the outcomes are a part of the underlying information that a council is required to consider when building a long-term plan, and it is therefore important that the information is prepared in a manner that would allow a council to rely on it when preparing its LTCCP.

- 2.141 Our focus has therefore been on understanding the process used by each council, and checking that the required statutory information is included in LTCCPs. We observe that, while there were many stand-alone processes that were well run by individual councils, processes that involved collaboration by groups of neighbouring councils generally allowed both greater engagement with community and other groups capable of influencing outcomes, and greater sharing of the cost of the process. However, there is also a risk that regional processes could overlook specific local concerns.

Governance

- 2.142 Preparing a long-term plan is a process in which underlying technical information must be reconciled with a council's existing policies and strategies and then shaped by the emerging and changing preferences of communities. The elected representatives who make the choices and trade-offs for the long-term direction of a council are at the heart of this process. We therefore wanted to understand the governance processes underlying the preparation of LTCCPs.

Involvement of elected members and staff

- 2.143 We noted widely divergent approaches in councils' facilitation of community outcomes and the councillors' involvement. Such approaches are for each council to determine. However, from our review of self-assessment responses, we were concerned that there may not have been a high level of opportunity for involvement by councillors in up to a third of cases. In our view, if elected members have had a minimal role in developing the LTCCP (for instance, if their opportunity for involvement occurs solely at the presentation of an SOP for adoption), there are risks that the LTCCP will not be understood, owned, and supported by its governing body.
- 2.144 Likewise, an LTCCP that is not based on the underlying information prepared and managed by council staff, and that is not communicated to, or understood by, those staff, is less likely to be seen as relevant, and is therefore less likely to be implemented and maintained. We were not confident about the level of senior managers' communication about the council's long-term planning to staff in just fewer than 20% of instances.

Alignment and strategic flow

- 2.145 In working to determine the levels of service that a council both aims to achieve over time and may be able to achieve at any point in time, a council draws together information from:
- "top-down" sources – such as the results of the community outcomes process, statutory obligations, assumptions about the wider changes that are likely to affect the council, and a range of policies and plans that the council has chosen to adopt; and

- “bottom-up” sources – such as the condition and likely remaining lives of its assets, its current staff, and commitments such as financing arrangements.

2.146 A council therefore needs to plan its LTCCP so that each of these sources of information is prepared, and to draw these together in a logical sequence. In particular, we noted that although asset management plans including service levels were in the process of being confirmed:

- newer parts of the 2002 Act, such as community outcomes or water and sanitary services assessments, were sometimes still being prepared; or
- council policies and plans had not been maintained nor had their continuing relevance been confirmed.

2.147 Conceivably, these extra steps could provide information or public feedback that it would be useful to consider when confirming service levels.

Quality assurance processes

2.148 Ensuring that the document tells a coherent and consistent story, and contains all its required contents, is one of the important final processes in preparing a plan that integrates many sources and types of information. We asked councils to tell us the quality assurance steps they were intending to take to ensure this, and we had concerns about these in just over 20% of cases.

Decision-making

2.149 One of the areas that the 2002 Act has placed a greater emphasis on than the 1974 Act has been in setting out principles and council responsibilities with respect to decision-making.

2.150 The adoption of an LTCCP is itself a decision. However, an LTCCP is also a synthesis or integration of a series of underlying decisions made over time. The decisions are reflected in the services a council provides and the assets and resources it commands to deliver those services. We have therefore been concerned to both:

- ensure that the process of adoption meets each council’s responsibilities under the 2002 Act; and
- understand the internal systems by which a council ensures that it addresses its decision-making responsibilities (set out primarily in sections 76-81 of the 2002 Act) when it makes any specific decision.

Systems underlying decision-making

2.151 In circumstances where there are not adequate systems and resources in place to ensure that decision-making responsibilities can be met, there is a risk that the decision-making provisions of the 2002 Act (for example, about the significance of an issue and the identification and analysis of options having regard to effects

on well-being) have not been complied with. We raised questions with over half of the councils about areas of their systems and processes for decision-making as a result of our review of their self-assessments. We think this is likely to be because:

- The decision-making requirements generally require councils to identify and consider relevant matters when determining the procedures and factors they need to assess for each decision. Therefore, the decision-making provisions are essentially judgement-based, rather than setting out prescriptive requirements.
- The decision-making provisions are newer areas of local government legislation, and many councils are determining how best to address the intention of the requirements.

Inconsistent decisions

2.152 One area in which we noted concerns was that of section 80 of the 2002 Act –

80 Identification of inconsistent decisions –

- (1) *If a decision of a local authority is significantly inconsistent with, or is anticipated to have consequences that will be significantly inconsistent with, any policy adopted by the local authority or any plan required by this Act or any other enactment, the local authority must, when making the decision, clearly identify—*
- (a) *the inconsistency; and*
 - (b) *the reasons for the inconsistency; and*
 - (c) *any intention of the local authority to amend the policy or plan to accommodate the decision.*
- (2) *Subsection (1) does not derogate from any other provision of this Act or of any other enactment.*

2.153 The planning provisions set out a framework within which council decision-making is to occur. The provisions emphasise integrated decision-making by councils with opportunities for public participation.³ Section 80 essentially says that deviating from prior plans and policies in force is acceptable if a council considers and understands the effects of the intended change and is open about its reasons for doing so. A council therefore needs to be conscious of its existing policies and plans for it to be able to identify deviations from them. The responses to self-assessments suggested that nearly a third of councils do not have arrangements that make policies and their implications easily known (primarily by council staff) for the purpose of identifying inconsistent decisions.

³ See, for example, section 93(6) of the 2002 Act.

Determining levels of service

- 2.154 The other area that we were interested in was the process councils used to decide on levels of service to provide. Determining and understanding service levels and their effects is important, as they provide the basis for planning asset management intentions, as well as general operating needs. Service levels can be influenced by various factors – for example, legislative requirements, resident or customer needs, and preferences supported by underlying technical specifications. Understanding and making choices about the level of service to deliver is therefore a core decision-making function that in turn dictates the expenditure and revenue needs of a council.
- 2.155 At the time of our self-assessment work, about 40% of councils told us their service levels were still being developed. As part of reviewing asset management plans, many were taking the opportunity to review service levels either generally or in specific activity areas, or were reviewing community feedback already received to identify areas that may need improvement. In this review, councils were considering how best to address the community outcomes and well-being context that the 2002 Act requires when making decisions about service levels.

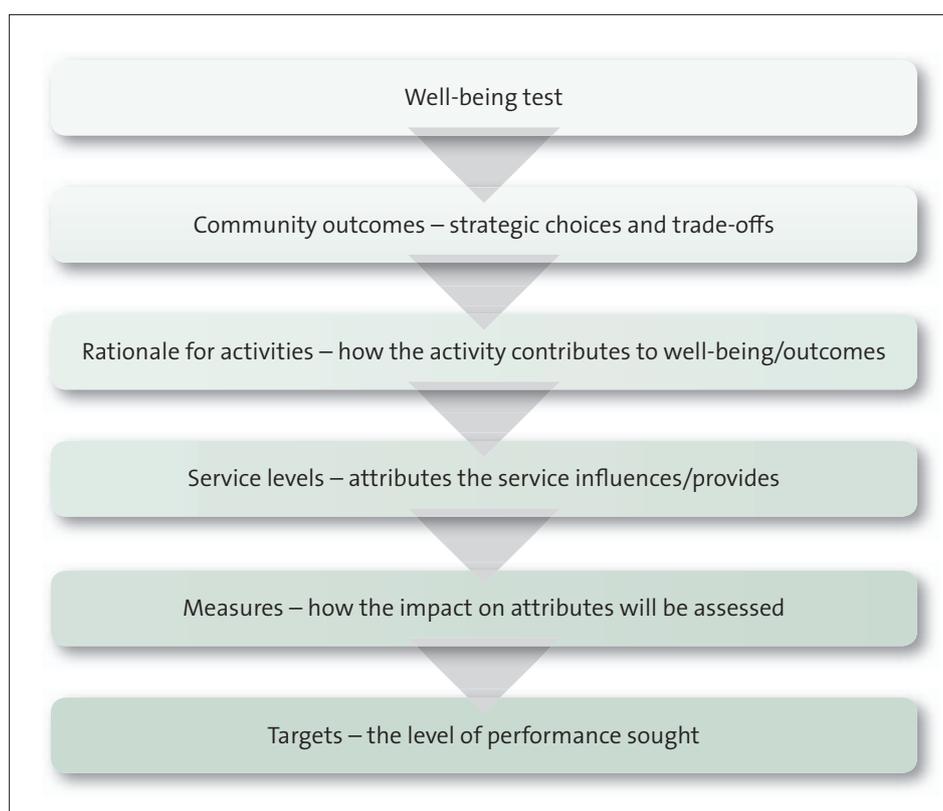
Performance management systems

- 2.156 Many councils identified difficulties in this area. These can be summarised as:
- a lack of resources internally (particularly for smaller councils);
 - a lack of information specific to their area (we understand that Statistics New Zealand and other central government agencies are working on this); and
 - difficulty in developing performance measures that are both measurable and meaningful (a problem that is by no means unique to local government).

Determining performance frameworks

- 2.157 Most councils have been working on this area, and have continued to do so in the time leading up to the adoption of the 2006-16 LTCCPs. However, in mid-2005, over a third were yet to complete development work on a performance framework for assessing service levels. Our analysis of responses suggested that the frameworks used by almost a further third may not systematically collect information that addresses intended achievements and key risks.
- 2.158 From the self-assessment information presented, there is a risk that performance frameworks will not:
- provide a coherent and logical flow from well-being and community outcomes to performance measures and targets (see Figure 2.2); and
 - specify relevant performance measures accompanied by “best estimate” performance targets.

Figure 2.2
Logical flow in the performance framework



- 2.159 We are conscious that performance measures and targets are one of the evolving areas of the 2002 Act as councils work to link well-being and outcomes to the rationale for activities and service levels, and to performance measures and targets. We are also conscious that there are inherent difficulties in assessing performance for some types of activities (such as emergency response services). We therefore asked our auditors to exercise careful judgement about the materiality of weaknesses in councils' performance frameworks. We also maintained a national overview of our audit work to ensure that we formed opinions consistently, while taking account of the relative size and scale of councils.
- 2.160 This is an area that we acknowledge will see improvement over time. We aim to support this work, and to date have shared with the sector the understanding we have gained in thinking about, and assessing, the development of council performance frameworks and systems.

Key controls review

- 2.161 Alongside the self-assessment work described in paragraphs 2.116-2.160, our auditors also conducted a high-level review of the planning systems and processes each council adopted to prepare its LTCCP. This “key controls” review looked at:
- project management;
 - asset management planning;
 - establishment of levels of service;
 - business plans and budgets;
 - financial modelling; and
 - performance monitoring and reporting.
- 2.162 The purpose of the “key controls” review was to analyse the controls that councils used to assess their audit risks. Being able to rely on controls lessens the auditor’s need to do detailed checking. Each council’s review was centrally analysed using the same grouping and general process outlined for the self-assessment process. This enabled a consistent approach to be taken and ensured that each council was assessed for audit risk relative to its size and scale of operation.

Key findings

- 2.163 We outline below the common concerns that arose from this work.

Project management

- 2.164 In general, project management and planning did not address the risk of tasks or information being incomplete. The process tended to rely strongly on senior management reviewing whether or not information was complete. This was coupled with a general tendency to produce information “just in time”. The risks of “just in time” planning became evident when the SOPs to adopt a draft LTCCP were centrally reviewed. The time needed for audit clearance and multiple plan iterations was often not built into the plan, and many councils had to move meeting dates in order for the plan to be completed or amended and an unqualified audit opinion issued.

Asset management planning and service level definition

- 2.165 Many councils appeared to be preparing this underlying base of information at a late stage and were potentially not leaving enough time to prepare an integrated plan. This meant that, in some instances, it was not clear how asset management information informed capital expenditure projections and operational plans. In other instances, it appeared that asset management information was being adjusted to fit within available funding without any apparent consideration of the effect this may have on levels of service.

- 2.166 In a number of instances, the audit of the SOP to adopt the LTCCP involved additional work because the information in the asset management plans was out of date, unreliable, and, in some cases, non-existent. Some councils are still not producing asset management plans that are reliable enough to inform strategic planning.
- 2.167 We intend to report further on our observations of asset management in our report to Parliament on the results of our LTCCP audit work.

Financial modelling

- 2.168 There was a lack of integrity checks and consistency flows within models – particularly when associated with spreadsheets. Some councils also intended to use financial modelling systems rather than relying on spreadsheets, but at the time of our field reviews (late 2005) these systems were yet to be written or implemented. This meant that their suitability and effectiveness would be confirmed only relatively late in the cycle for developing the LTCCP.
- 2.169 While a large number of councils used integrated financial modelling packages, there were still many that relied on spreadsheet systems to produce the financial information for the LTCCP. While a well-written spreadsheet is a powerful tool, in too many cases they were not robust enough to allow adequate modelling of options. They also did not have the checks and controls we would expect, to ensure adequate flow through of assumptions and calculated values.

Conclusions

- 2.170 It is important that councils take the lessons and experiences of the 2006-16 LTCCP process and build on them for the 2009-19 LTCCP.
- 2.171 Self-assessments were provided to us in response to a request for information to help us assess underlying processes associated with consultation, preparation of community outcomes, governance, decision-making, and performance management systems. Key controls were prepared by our auditors through high-level reviews of council systems and discussions with council management.
- 2.172 The information has formed one of the inputs on which our auditors have assessed risk for the purpose of planning substantive audit work. Therefore issues identified through these processes have been considered and raised with each council, as relevant, to determine if the risk has been correctly identified and, if so, how it might be mitigated or addressed by the council, either for the 2006-16 LTCCP or in future planning processes.
- 2.173 We are grateful for the sector's co-operation in providing this important information.

- 2.174 While councils are completing LTCCPs – often with “work-arounds” to deal with control issues – it is apparent that, for many, the nature of the process is a project undertaken every 3 years. For the LTCCP process to deliver on the purposes outlined in section 93(6) of the 2002 Act, councils will need to ensure that the planning and management processes are ongoing.
- 2.175 To achieve this, councils should consider:
- continuing to develop processes to give effect to the principles of the 2002 Act;
 - continuing to develop robust underlying information – for example, asset management plans, levels of service, and assumptions;
 - implementing reliable modelling systems;
 - developing adequate disclosures – for example, price changes;
 - developing meaningful performance management frameworks – especially ones that document the rationale for the activity and the levels of service provided; and
 - ensuring internal consistency and integrity.

Next steps by the Office of the Auditor-General

- 2.176 We intend to review the process we undertook for the audit of the 2006-16 LTCCP when our audit work is complete. We intend to provide information on this in our next report to Parliament on local government in 2007, and expect that this will cover issues such as lessons learned, the feedback from the sector, and our progress towards the audit of the next LTCCP.

Part 3

Other issues arising during 2004-05

3.1 Planning for transition to the New Zealand equivalents to International Financial Reporting Standards

3.101 In this article, we provide an update on the progress made by the local government sector towards the transition to accounting and reporting in accordance with the New Zealand equivalents to International Financial Reporting Standards (IFRS),¹ NZ IFRS,² and highlight some of the implications for the sector.

Background

3.102 In December 2002, the Accounting Standards Review Board (ASRB) announced its decision that New Zealand entities would be required to apply new standards, based on IFRS, for reporting periods beginning on or after 1 January 2007. Entities have the option to apply the new standards from reporting periods beginning on or after 1 January 2005.

3.103 While we expect the majority of public sector entities to adopt the new standards for their first reporting period beginning on or after 1 January 2007, most local authorities are adopting these standards for their reporting period beginning 1 July 2006. This is so local authorities avoid having to present information in their 2006 Long-Term Council Community Plans (LTCCPs)³ under 2 different sets of standards. If local authorities delay NZ IFRS adoption until the latest possible date, then the first year of their 2006-16 LTCCP would be under the old standards, with the remaining 9 years under the new standards.

3.104 As local authorities' first set of NZ IFRS financial statements (for the year ending 30 June 2007) must include comparative figures presented on the same basis of accounting, the comparative figures for the year ending 30 June 2006, and an opening balance sheet at 1 July 2005, will need to be restated in accordance with NZ IFRS.

3.105 Where a local authority has subsidiary (or associate) entities, in most cases these entities are adopting NZ IFRS at the same time as their parent local authority. This

1 The term IFRS is used to refer to International Accounting Standards Board (IASB) standards. The standards comprise International Accounting Standards (IAS), inherited by the IASB from its predecessor body, the International Accounting Standards Committee (IASC), and the interpretations of those standards; and International Financial Reporting Standards (IFRS) – the new standards being issued by the IASB, and the interpretations of those standards.

2 NZ IFRS will comprise: New Zealand International Accounting Standards (NZ IAS), and the interpretations of those standards; New Zealand International Financial Reporting Standards (NZ IFRS), and the interpretations of those standards; and New Zealand Financial Reporting Standards (FRS), where there is no equivalent IFRS.

3 Councils are required to produce LTCCPs by 30 June 2006, covering a period of 10 years starting 1 July 2006.

is because NZ IFRS require the consolidated financial statements of a group to be prepared using uniform accounting policies.

- 3.106 If a local authority's subsidiary (or associate) entities adopt NZ IFRS at a date different from their parent local authority, they will have to maintain 2 sets of information. One set would be in accordance with the policies adopted for their own reporting, while the other would be in accordance with the reporting requirements of their parent (for consolidation purposes).

The new standards and their anticipated effects on the local government sector

- 3.107 On 24 November 2004, the ASRB approved the initial suite of standards for NZ IFRS. This initial group of approved NZ IFRS was described as the "stable platform". This term is used by the International Accounting Standards Board (IASB) to describe the standards to be applied by countries moving to adopt IFRS from 2005. The approved NZ IFRS "stable platform" is the New Zealand equivalent to the IASB's "stable platform".
- 3.108 Some aspects of the "stable platform" have already been amended, and the IASB is continuing its work on the development of IFRS. The IASB's work programme will lead to further changes to IFRS, and consequently NZ IFRS, before NZ IFRS are adopted by the local government sector. These changes will need to be monitored.
- 3.109 However, we are expecting the majority of the "stable platform" to stay, in the main, as it is now. There is, in our view, enough certainty to enable the sector to plan for the transition to NZ IFRS, assess the implications for financial reporting, and make the transition.
- 3.110 Although a number of local authorities have completed preliminary opening NZ IFRS balance sheets, it is still too early to comment definitively on the effects of the transition to NZ IFRS. However, we observe that:
- there will be changes to the values at which some assets and liabilities are measured;
 - there will be some assets and liabilities recognised for the first time (for example, derivative financial instruments, accrued sick leave);
 - some assets will no longer be recognised (for example, internally generated intangibles, to the extent they exist in the sector); and
 - there will be more disclosures in the notes to the financial statements.
- 3.111 Probably the most significant change is in accounting for financial instruments, where current generally accepted accounting practice (GAAP) in New Zealand

sets out only disclosure requirements. NZ IFRS establish new rules for the recognition and measurement of financial assets and liabilities. Derivative financial instruments will need to be accounted for “on balance sheet” at fair value, and there will also be an increased requirement to account for other financial instruments at fair value. This may increase the volatility of reported financial performance, and, while there are options to reduce this volatility in some circumstances through the use of hedge accounting, the criteria that need to be met for adopting hedge accounting are quite onerous (for example, in terms of assessing hedge effectiveness and in record keeping).

- 3.112 A number of local authorities do use derivative financial instruments in their treasury operations, particularly interest rate swaps to reduce exposure to interest rate variability on borrowings. The accounting and record-keeping requirements of derivative transactions is proving a challenge for some local authorities.
- 3.113 Another area of significant effect is in accounting for community loans (loans to entities in the local community, such as sports clubs and sports venues). Community loans often do not earn a market rate of return, and the repayment dates and the ability of the entities to repay such loans can be uncertain. The current accounting policy is to record community loans at amounts ultimately expected to be received in settlement of the loan (excluding interest), whereas under NZ IAS 39 these assets will have a lower value, which takes into account the time value of money.
- 3.114 Some of the other areas where the requirements of NZ IFRS are significantly different from current GAAP requirements, and which may significantly affect the financial statements of some local authorities or other local government sector entities, are:
- business combinations (including a prohibition on goodwill amortisation, which is replaced by an annual impairment test);
 - deferred tax (the whole approach to accounting for deferred tax is changing, and will result in more deferred tax assets and liabilities being recognised by those local government entities that pay tax – for example, council-controlled trading organisations);
 - employee entitlements (particularly a requirement to account for accumulating non-vesting sick leave);
 - property, plant, and equipment (particularly a requirement for profit-oriented entities, such as council-controlled trading organisations, to account for asset revaluations on an asset-by-asset basis rather than the current class-of-assets basis);

- investment property (including changes to the criteria used to identify investment properties, and a requirement for the annual change in fair value to be recognised in the statement of financial performance);
- biological assets (including assets such as forestry, and a requirement for annual revaluation to fair value, with valuation movements recognised in the statement of financial performance); and
- related parties (including disclosures of compensation information for “key management personnel”).

3.115 The degree to which individual local authorities are affected will depend on the types of assets and liabilities that they have, and the transactions that they enter into. For large local authorities with multiple subsidiary entities the transition to NZ IFRS is likely to be complex, whereas for some small local authorities with no subsidiaries and no complex financial instruments the transition may be more straightforward.

3.116 In April 2005, the ASRB approved Financial Reporting Standard 41: *Disclosing the Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards* (FRS-41). FRS-41 requires disclosure in the annual report of issuers⁴, of information about planning for the transition to NZ IFRS, key differences in accounting policies that are expected to arise, and the estimated effects on the financial report of adopting NZ IFRS. Although most entities within the local government sector are not issuers as defined in section 4 of the Financial Reporting Act 1993, FRS-41 encourages other entities to also provide these disclosures. We support such voluntary disclosure.

3.117 Many entities in the sector provided some disclosures of this nature in their 2005 annual report, although only a few quantified the expected effects. This was to be expected, given the state of progress towards the transition to NZ IFRS at that stage. However, we expect that there will be significantly more information about the effects of the transition to NZ IFRS included in annual reports for the year ending 30 June 2006.

Guidance for public benefit entities

3.118 IFRS have been developed with a focus on profit-oriented entities. NZ IFRS have preserved the format, language, and structure of IFRS, but the ASRB has decided that a single set of standards should continue in New Zealand, applying to both profit-oriented and public benefit entities.⁵ In order for NZ IFRS to be appropriate for public benefit entities, some adaptation of IFRS has been necessary.

⁴ FRS-41 uses the concept of an “issuer” as defined in section 4 of the Financial Reporting Act 1993.

⁵ Public benefit entities are entities whose primary objective is to provide goods or services for a community or a social benefit, and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. They include most public sector entities.

- 3.119 The ASRB established guidelines⁶ to be used in adapting IFRS in New Zealand:
- The IFRS disclosure requirements cannot be reduced for profit-oriented entities.
 - Additional disclosure requirements can be introduced for all entities.
 - The IFRS recognition and measurement requirements for profit-oriented entities cannot be changed.
 - Recognition and measurement requirements can be amended for public benefit entities, with a rebuttable presumption that amendments are based on existing International Public Sector Accounting Standards (IPSAS)⁷ or existing New Zealand FRS.
 - The introduction of guidance materials for public benefit entities should be based on the same principles as those applying to the amendment of recognition and measurement requirements (as outlined above).
 - The elimination of options in IFRS is permitted for all entities, on a case-by-case basis. Where an IFRS permits options that are not allowed in an existing FRS, a strong argument would need to be made in order for the ASRB to agree to the retention of such options in the NZ IFRS. In reaching a view on this issue, the ASRB will be mindful of the approach adopted by the Australian Accounting Standards Board.⁸
- 3.120 We reported last year⁹ that, in our view, the provision of additional guidance on the application of NZ IFRS to public benefit entities is crucial to ensure that NZ IFRS are relevant and appropriate for the New Zealand public sector environment. We have worked closely with the Financial Reporting Standards Board (FRSB) on this issue over the past year, and we will continue to do so.
- 3.121 We are pleased to report that some of the concerns that we have raised last year in relation to guidance for public benefit entities have now been addressed. In particular the FRSB has now issued useful guidance to assist entities to determine whether they are a profit-oriented entity or a public benefit entity.¹⁰ This distinction is important as some of the requirements of NZ IFRS differ depending on the nature of the entity applying the standards.
- 3.122 The local government sector is made up of some entities that are clearly public benefit entities (such as local authorities) and some entities that are clearly profit-

6 Accounting Standards Review Board Release 8, paragraph 27.

7 IPSAS are developed and issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, for application to public sector entities.

8 One of the functions of the ASRB is to liaise with the Australian Accounting Standards Board, with a view to harmonising New Zealand and Australian financial reporting standards (section 24, Financial Reporting Act 1993).

9 *Local Government: Results of the 2003-04 Audits*, parliamentary paper B.29[05b], page 30.

10 NZ IAS 1: Appendix: New Zealand Application Guidance: When is an Entity a Public Benefit Entity?

oriented entities (such as council-controlled trading organisations and electricity lines companies). However, there are some entities that have a mix of objectives (such as some airports and some utility providers). The guidance developed by the FRSB provides a framework for these entities to use in determining whether they should account under NZ IFRS as a public benefit entity or as a profit-oriented entity.

- 3.123 The FRSB has recently established a public benefit entity working group, on which we are represented. The working group is addressing topics that affect public benefit entities and that are not currently adequately addressed in NZ IFRS. We hope to continue our involvement in this working group and we will continue to raise the need for appropriate guidance for public benefit entities with those parties responsible for setting standards in New Zealand. Our strong preference remains for such guidance to form an integral part of the new standards, rather than be seen as an “add-on” for the public sector.

Sector progress towards NZ IFRS transition

- 3.124 Over the past year, the sector has made good progress towards the transition to NZ IFRS. The Society of Local Government Managers (SOLGM) has played a significant role in providing guidance to the sector (such as through seminars) and providing a forum for the sector to share NZ IFRS information and experiences. We have worked closely with SOLGM over the past year and we will continue to do so.
- 3.125 Our auditors are also working closely with individual local authorities and other entities in the sector. While many entities in the sector have made significant progress, the progress of others has been more limited.
- 3.126 The major tasks that entities have been undertaking have included:
- assessing the effects of NZ IFRS on their financial statements;
 - selecting the accounting policies that they will adopt under NZ IFRS, including assessing the options available under NZ IFRS both on transition and for the ongoing application of NZ IFRS accounting policies; and
 - producing the restated preliminary opening NZ IFRS balance sheet as at 1 July 2005.
- 3.127 The local government sector is already dealing with the challenge of preparing LTCCPs. One input into the LTCCP financial forecasts is the conversion to NZ IFRS. Project managing the preparation of LTCCPs and the transition to NZ IFRS has been a significant challenge. In practice, we are finding some local authorities have made excellent progress in planning their transition to NZ IFRS, whereas some others, particularly some smaller local authorities, have prioritised other aspects of their LTCCP and made less progress to date.

- 3.128 The forecast financial statements in the LTCCPs are generally being prepared on a parent entity basis (rather than a fully consolidated basis). Therefore the key information required for the LTCCP in relation to subsidiary and associate entities is about funding flows from the local authority parent to the subsidiaries and associates and about dividends flowing back to the parent. Although full NZ IFRS opening balance sheets of subsidiaries and associates will be required for future financial reporting, they are not required as an input into the LTCCP. This means that there has been little incentive for some smaller local government sector entities to address the transition to NZ IFRS at this stage. For many of the smaller entities, the transition to NZ IFRS will be straightforward, but this will not be so in all cases.
- 3.129 The transition to NZ IFRS affects both the workload and training requirements of finance teams in some public sector entities. The transition to NZ IFRS is also likely to result in some additional costs through the transition period.

Effect on auditors

- 3.130 The transition to NZ IFRS is a significant challenge for us, and the auditors appointed to audit entities on behalf of the Auditor-General.
- 3.131 There will be additional audit work required in relation to restated opening balance sheets and comparative figures, and in assessing revised accounting policies and processes (such as those required for hedge accounting). This additional work will need to be included within an already tight work programme, and will have some implications for audit fees. Entities within the local government sector will need to ensure that such additional audit fees are incorporated into their budgets.
- 3.132 Over the past year, we have put all our professional staff through extensive training on NZ IFRS and we are continuing to develop resources for auditors to ensure that they are fully prepared to audit in an NZ IFRS environment. The audits of the restated preliminary opening NZ IFRS balance sheets in the local government sector are currently in progress and are the first real test of the effectiveness of this training and of our audit approaches under NZ IFRS.
- 3.133 We will continue to work closely within the sector over the transition to IFRS. In particular we will continue to work with the Financial Management Working Party (FMWP) of SOLGM.
- 3.134 We participated with FMWP during 2005 in their “Jigsaw” and “Booster” workshops for senior managers in the local government sector. The later workshops in particular had a focus on the transition to NZ IFRS. We will continue to support such initiatives where appropriate. We anticipate the main focus will

be around significant aspects of local authority accounting under the IFRS regime – such as the most appropriate and pragmatic accounting under NZ IFRS for development contributions.

- 3.135 As resources allow, we also anticipate that Audit New Zealand’s model annual report, for Te Motu District Council, will be updated. This has been an effective means in the past of assisting the sector.

Summary

- 3.136 The local government sector has made good progress over the past year towards the implementation of NZ IFRS. However, there remains much to be done.
- 3.137 Although NZ IFRS will continue to be subject to some change in the period leading up to the adoption of NZ IFRS, there is sufficient stability within NZ IFRS to allow entities to plan for, and manage, the transition.
- 3.138 Accounting for financial instruments is expected to be the area of greatest challenge for the sector, although the effect on individual entities will vary depending on the nature of their assets, liabilities, and underlying transactions.
- 3.139 We are pleased with the progress made in providing guidance on NZ IFRS for public benefit entities, and consider that the formation by the FRSB of a public benefit entity working group is a positive step.
- 3.140 There has also been good progress towards the transition to NZ IFRS by many local authorities and other entities within the local government sector, although the degree of progress is variable, particularly for smaller entities.
- 3.141 SOLGM has played a significant role in providing guidance to the sector. We have worked closely with SOLGM over the past year and we will continue to do so.
- 3.142 The transition to NZ IFRS remains a significant challenge for us. There is additional audit work required, particularly in relation to NZ IFRS accounting policies, restated opening balance sheets, and comparative figures. We are confident that we will fully meet these challenges and that we will achieve our overriding objective of supporting the change to NZ IFRS at least cost, and with minimum fuss, in a constructive and co-operative manner.

3.2 Implementation of the Local Government (Rating) Act 2002

3.201 The purpose of this article is to discuss 2 rating issues that came to our attention during the 2004-05 audits.

Setting rates in accordance with the Long-Term Council Community Plan

3.202 Section 23 of the Local Government (Rating) Act 2002 (the Rating Act) provides that rates set by a local authority must:

- relate to a financial year or part of a financial year; and
- be set in accordance with the relevant provisions of the local authority's Long-Term Council Community Plan (LTCCP) and funding impact statement for that financial year.

3.203 The funding impact statement, in either the LTCCP or the annual plan, must include information about revenue and financing mechanisms to be used by the local authority. It must also include certain information about general and targeted rates, and activities that will be funded from those rates.¹¹ If a targeted rate is to be set differentially, the funding impact statement must state the total revenue sought from each category of rateable land, or the relationship between the rates set on rateable land in each category.

3.204 The following example illustrates the difficulties that may arise in complying with section 23 of the Rating Act where a decision that is inconsistent with a current policy is made late in the financial year.

3.205 A local authority decided to introduce a differential to a targeted rate for land transport for the 2005-06 rating year. The local authority wanted to do so to avoid potential litigation from an energy company that was paying a large amount of the rate but was not a major user of roads in the district.

3.206 In its draft annual plan, the local authority said that it intended to introduce a differential to the rate. The effect of the differential was to significantly decrease the rate payable by the energy company, but to increase the rate for other ratepayers by about 5%. However, as the local authority's revenue and financing policy did not provide for a differential land transport rate, the proposed rate was inconsistent with the revenue and financing policy.

3.207 The Local Government Act 2002 (the 2002 Act) recognises that councils will from time to time make decisions that are inconsistent with policies or plans, including the LTCCP. Section 80 of the 2002 Act provides that, if a decision is significantly

11 Local Government Act 2002, Schedule 10, clauses 10 and 13.

inconsistent with a policy or plan, a council must, when making the decision, identify:

- the inconsistency;
- the reasons for the inconsistency; and
- any intention to amend the policy or plan to accommodate the decision.

3.208 In this case, the local authority did not consider that the decision was significantly inconsistent with its revenue and financing policy, but followed the section 80 process in its draft annual plan in any case. The local authority said that it would change the revenue and financing policy as part of the 2006-16 LTCCP. The revenue and financing policy forms part of the LTCCP, so a local authority could adopt a new policy with a new LTCCP or amend an existing policy during the period of the LTCCP by using the formal amendment process.

3.209 We discussed with the local authority whether or not it could meet the requirements of section 23 of the Rating Act, which are that rates must be set in accordance with relevant provisions of the funding impact statement and the LTCCP. The proposed differential land transport rate was in accordance with the funding impact statement for the financial year, as outlined in the draft annual plan, but was inconsistent with the revenue and financing policy in the LTCCP. In our view, the revenue and financing policy is likely to be a “relevant provision” of the LTCCP for the purpose of setting rates.

3.210 We considered that the local authority faced some risk in setting the land transport rate without amending the revenue and financing policy. However, we did not consider that the matter was of significant concern, as the local authority had clearly signalled its intended action in the draft annual plan for the year. We therefore did not consider that ratepayers had missed out on relevant information, because they had the opportunity to comment on the proposed rate during consultation on the annual plan.

Separately used properties

3.211 Since the Rating Act was enacted, we have received several enquiries about how local authorities are applying section 15(1)(b) of the Rating Act. Section 15 concerns uniform annual general charges (UAGCs). It provides that –

- (1) *A local authority may set a uniform annual general charge for all rateable land within its district, being—*
 - (a) *a fixed amount per rating unit; or*
 - (b) *a fixed amount per separately used or inhabited part of a rating unit.*

- 3.212 Our understanding is that section 15(1)(b) was included in the Rating Act to address difficulties that had arisen under the now-repealed Rating Powers Act 1988. These difficulties concerned levying separate charges, such as UAGCs, on separately used or separately inhabited parts of a single property. While separate charges for water supply or waste removal could be levied on separately used or inhabited parts of a rateable property under section 24 of the Rating Powers Act, there was no authority to levy UAGCs on such parts.
- 3.213 We have received enquiries from ratepayers concerned about:
- a council policy of levying separate UAGCs on dual-use properties with a single inhabitant; and
 - a council policy of levying a UAGC on a part of a property that was capable of separate inhabitation, but was not in fact separately inhabited and where separate inhabitation would have been in breach of building standards.
- 3.214 In the first case, the owner of the property lived in the property and operated a part-time business in the other part. The property was purpose built for business use in one part and residential use in the other part. The owner was concerned about paying 2 UAGCs for the property. The owner was also concerned that the Council was not applying rates consistently within the district, as he believed that other properties with more than one use were not subject to more than one UAGC.
- 3.215 The Rating Act does not define “separately used or inhabited”, and the Council uses the following “working definition” –
- any part of a rating unit separately used or inhabited by the ratepayer, or by any other person having a right to use or inhabit that part by virtue of a tenancy, lease, license, or other agreement.*
- 3.216 Whether a part of a rating unit is separately used or whether it is separately inhabited is a question of fact. After the Rating Act was enacted, the Council had surveyed ratepayers about separate use and separate inhabitation. The Council had determined that the ratepayer’s property had 2 separately used parts (one business, one residential) and therefore charged the ratepayer 2 UAGCs.
- 3.217 The ratepayer considered the Council’s approach to be illegal and unfair. They referred the Council to other councils that had a policy of not applying a second UAGC on a dual use property where there is a single inhabitant.
- 3.218 The Council considered the ratepayer’s concerns in detail but did not change its policy. The Council considered a remission policy for rating units designed for dual use where one of the uses is of a minor nature and where there is a single

inhabitant, but found it impossible to word a policy in such a way as to prevent unintended application to a wide range of rating units. The Council had legal advice that a court would be likely to uphold the Council's approach to rating the ratepayer's property. We advised the ratepayer that the Council was entitled to rely on its legal advice and that its approach did not appear to us to be unlawful or unreasonable.

- 3.219 In the second case, a Council levied a second UAGC on a part of a property that the ratepayer asserted was not in fact separately inhabited. While the part had a separate entrance and a separate kitchen, the ratepayer did not believe that the property would meet building regulations requirements for separate inhabitation. This was because the 2 parts of the property were not separated by a fire wall that would comply with building regulations and was therefore not legally capable of separate inhabitation.
- 3.220 While we could not make a legal determination on the matter, we advised the Council of our view that section 15(1)(b) requires councils to undertake factual enquiries about separate use or separate inhabitation, rather than levy UAGCs based on a property's capacity for separate inhabitation. We also considered that the Council's rating policy and practice should be aligned with the requirements of the Building Act 1994.

Information relevant to rating

- 3.221 We have also considered complaints about rating exemptions. In particular, we considered how local authorities ensure that properties that are exempt from rates based on specified exempt uses are in fact being used in accordance with the exemption. Those cases, and the case discussed in paragraphs 3.219 and 3.220, raise questions about how local authorities gather and use information about properties, including information available from within a council (such as about the application of building regulations to a particular property), and how they maintain their rating information databases. Councils need to ensure that they are imposing rates on the best available current information and that rates are applied consistently, to ensure that like properties are treated in a like manner.

3.3 Implementation of the Local Government Act 2002 – incidental arrangements in foreign currency

- 3.301 This article discusses whether or not section 113 of the Local Government Act 2002 (the 2002 Act) is consistent with the requirement for local authorities to manage their resources prudently.
- 3.302 Section 113 of the 2002 Act provides that no local authority may borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.
- 3.303 Section 112 of the 2002 Act contains a very broad definition of incidental arrangement, which includes “... a contract or arrangement for the management, reduction, sharing, limiting, assumption, offset, or hedging of financial risks and liabilities in relation to any investment or investments or any loan or loans or other incidental arrangement ...”.
- 3.304 While the definition is broad, it can be seen that it applies only to incidental arrangements made in relation to borrowing, investment, or other incidental arrangements. It does not apply to an incidental arrangement made for some other purpose, such as a foreign currency hedge designed to protect a local authority purchasing an asset from overseas from foreign exchange fluctuation in the period between agreement to purchase and payment. Also, the prohibition in section 113 applies to borrowing in foreign currency, but not investing in foreign currency.
- 3.305 During the 2004-05 audit, a council that had disposed of a large shareholding in an energy company received advice from its investment advisers that it should invest some of the sale proceeds in the United States market. The Council received legal advice that it was permitted to invest funds overseas provided it was prudent to do so, having regard to the decision-making provisions in Part 6 of the 2002 Act and the Council’s relevant financial management policies, such as its revenue and financing policy and the investment policy.
- 3.306 In the interests of prudent financial management, and in accordance with standard business practice, the Council wished to enter into incidental arrangements to hedge itself against foreign exchange rate risk in relation to the proposed overseas investment. The Council received legal advice about a way of entering into incidental arrangements that would have the same effect as a foreign currency hedge but would not breach section 113, but the matter was not clear cut and the Council’s approach carried some risk.
- 3.307 Our discussions with the Council raised the bigger issue of whether or not prohibiting incidental arrangements in relation to foreign currency investments is a useful prohibition, given that it appears to be inconsistent with the principle of

prudent financial management. A local authority's investment policy is required to address risks of particular investment and how those risks will be addressed. Where a local authority's investment policy permits investment of funds overseas, it is likely to be prudent to enter into incidental arrangements such as hedge contracts to address the foreign currency fluctuation risk associated with such investments.

- 3.308 We recommended to the Department of Internal Affairs that it review this aspect of the 2002 Act in consultation with the local government sector, to see if it fulfils a useful purpose or could be revised or repealed.
- 3.309 The Local Government Law Reform Bill, introduced in Parliament in April 2006, proposes to amend section 113 to clarify that an incidental arrangement in relation to a foreign currency investment is not prohibited.

3.4 Requests for inquiries

- 3.401 We receive a steady stream of correspondence from ratepayers asking the Auditor-General to investigate the activities or decisions of their local authorities.
- 3.402 Issues commonly raised by ratepayers and organisations that interact with local authorities include:
- whether or not the consultation processes (including identifying and considering options) are adequate;
 - whether or not consultation is genuine – ratepayers can perceive that consultation is a sham when the local authority’s decision is against the weight of submissions;
 - decision-making – including whether or not decisions are appropriately implemented by local authority officers, decisions are made within delegated powers, and councillor and management roles are clear;
 - rating equity;
 - accountability arrangements for grants and contracts with community-based and private-sector organisations;
 - use of, control over, and accountability for council-controlled organisations;
 - disposal of significant assets, particularly land;
 - allegations of conflicts of interest; and
 - code of conduct issues – in particular, increased interest in the use of the code of conduct by members of the public wishing to challenge local authority decisions.

The Auditor-General’s role

- 3.403 We receive about 160 requests each year for inquiries from ratepayers and organisations in the local government sector. Some people contact the Auditor-General because they are unhappy with a local authority’s decision and hope that the Auditor-General will require the local authority to reconsider the decision. However, it is not the Auditor-General’s role to consider the merits of a local authority’s decisions, prevent it making a decision, or ask it to change its mind. The Auditor-General also does not have any power to question matters of local authority policy. Making policy decisions is the role of elected representatives.
- 3.404 The Auditor-General is authorised under the Public Audit Act 2001 to inquire into any matter concerning a local authority’s use of its resources, either on request or on his own initiative, and, in addition to the annual financial audit, to conduct a more detailed performance audit of an aspect of a local authority’s performance. An inquiry or performance audit may involve looking into financial, accountability,

governance, or conduct issues in a local authority. It is usual for an inquiry to focus on a local authority's decision-making process and question whether or not the local authority has:

- applied its resources effectively and efficiently and without waste;
- complied with its legal obligations;
- acted honestly and with integrity in its dealings; and
- managed its finances prudently.

3.405 These functions are discretionary. The Auditor-General is not a formal complaints agency, and no-one can make the Auditor-General investigate a particular matter. Our usual approach is to invite the complainant to first raise the concern with the local authority concerned, unless there is good reason for not doing so. We always consider whether we are the most appropriate agency to consider the matter, and work closely with the Office of the Ombudsmen and the Parliamentary Commissioner for the Environment.

3.406 Some inquiries are straightforward, and are concluded by our writing to the local authority concerned and the original correspondent explaining our findings. However, other inquiries address more complex matters. We may, if the issues are significant, produce a public report that is presented to the local authority or Parliament.

3.407 We describe below some significant recent inquiries in the local government sector in the areas of decision-making, transport, and codes of conduct, to highlight some of the concerns raised by ratepayers and to show how we conduct our inquiries.

Decision-making

3.408 When asked to investigate a local authority's decision, our focus is on the decision-making process, rather than the merits of the decision itself. We consider whether the local authority can demonstrate that it has complied with the principles in the Local Government Act 2002 (the 2002 Act), as well as the decision-making framework in Part 6 of the 2002 Act and any applicable council policies.

3.409 We have found variable levels of compliance with the decision-making framework in the 2002 Act. The following examples illustrate some different approaches.

Example 1

3.410 A ratepayer contacted us with several concerns about a city council. The ratepayer was concerned about:

- a funding proposal that involved selling airport shares to a council-controlled organisation, then transferring redeemable preference shares to an investor;

- accountability arrangements between the Council and a trust that received significant funding from the Council to build an events centre;
 - the Council's extensive use of trusts to deliver activities;
 - a proposal to form a council-controlled organisation to develop a new town centre, rather than contract with the private sector; and
 - whether or not the Council's debt levels were sustainable.
- 3.411 The ratepayer's main concerns were the funding proposal and the Council's relationship with the events centre trust, but we considered all concerns in our inquiry. We considered each concern in terms of:
- whether or not the Council had complied with its statutory obligations, particularly whether or not the council had considered relevant principles and the decision-making requirements in the 2002 Act; and
 - whether or not the proposal showed a lack of probity or financial prudence by members or employees of the Council.
- 3.412 The funding proposal involved selling the Council's shares in an airport company to a newly established council-controlled organisation, and issuing redeemable preference shares to an investor who would benefit from imputation credits attached to those shares. The Council was not able to benefit from the imputation credits, as it is not a taxpayer. The effect of the transaction was that the Council could raise funds from the investor at a cheaper rate than if the Council had borrowed the funds directly. The ratepayer was concerned that the proposal amounted to tax avoidance, as the investor would obtain a tax benefit at the expense of the Crown. The ratepayer was particularly concerned that the Council intended to proceed before obtaining a ruling from the Commissioner of Inland Revenue on the tax avoidance issue.
- 3.413 We reviewed a considerable amount of material, including external legal, taxation, and accounting advice obtained by the Council. We interviewed council officers who were closely involved in the proposal. We found that the reports of council officers to the Council were of high quality, and contained a comprehensive analysis and discussion of the provisions of the 2002 Act relevant to the decision. The Council had consulted on the proposal in its Long-Term Council Community Plan (LTCCP) and subsequent annual plan, and had considered the submissions it had received.
- 3.414 We did not agree with the ratepayer that the Council had acted inappropriately or that its actions lacked financial prudence or showed a lack of probity. We considered that the Council's decision to proceed with the funding transaction before a binding ruling from the Commissioner of Inland Revenue was obtained

did create risks. However, the Council had assessed those risks as low and decided to proceed, which was a decision it was entitled to make.

- 3.415 Concerning the Council's involvement with the events centre trust, the Council had been involved with the Trust since the Trust was formed several years earlier. It had a large file on its dealings with the Trust. We reviewed all council documents, including a funding agreement between the Council and the Trust. We found that the Council was actively monitoring its investment in the Trust, and had a comprehensive and robust due diligence process in place to ensure that the Trust was meeting its obligations under the funding deed and other agreements. This was appropriate, given the significant level of council funding for the Trust. The ratepayer was unaware of the nature and extent of the Council's monitoring regime for the Trust, so our inquiry informed the ratepayer in that respect.
- 3.416 We made similar findings in the other areas of concern raised by the ratepayer. Generally, we found that a very high level of compliance with the decision-making framework in the 2002 Act. This is what we would expect for a large, well-resourced city council. We considered that councillors were well served by the reports from council officers.

Example 2

- 3.417 A smaller local authority had a different, less formal approach to complying with the 2002 Act when making a significant decision.
- 3.418 At the Council's request, we inquired into the Council's decision-making process for changing the way rates were set in 2 urban wards in the district. The Council had been divided on the decision, and we also inquired into allegations of conflict of interest and bias by councillors in the decision-making process (none of which were upheld). We visited the Council and interviewed relevant councillors and council officers.
- 3.419 Concerning decision-making, we found that the process complied with legislative requirements and that councillors were given enough information on which to make the decision. The reports from council officers contained detailed information and analysis about the effect of the rating change on particular properties in each ward. However, we noted that the reports did not refer to the legislative framework in the 2002 Act; nor to its applicable principles.
- 3.420 This contrasted with the reports by the city council officers in example 1 (see paragraphs 3.410-3.416), many of which followed a template that worked through the provisions and principles in the 2002 Act relevant to the decision. However, in reaching conclusions we took account of the size and scale of the decision and the Council.

- 3.421 We asked councillors whether they would have found reports from council officers more helpful if they had included more analysis of the decision-making regime and principles of the 2002 Act relevant to the rating decision. The councillors said they did not consider the lack of legislative context to be important in the rating decision we reviewed.
- 3.422 Generally, in reviewing local authority decisions against the decision-making framework in the 2002 Act, we consider that references to the legislative framework appropriate to the particular matter, as well as applicable principles in the 2002 Act and the effect of social, economic, environmental, and cultural well-being, are useful to set the context and focus discussion at meetings. It is easier for a local authority to demonstrate that it has complied with statutory decision-making requirements when those requirements are referred to, and discussed, in reports and in minutes of meetings.

Example 3

- 3.423 Another significant inquiry raised issues about:
- implementation of council decisions by council officers; and
 - informal meetings in the decision-making process.
- 3.424 A city council decided in March 2004 to embargo all future work on the Council's civic offices, apart from essential maintenance, because the Council expected to develop new civic offices within the next 5 to 10 years and had provided funding for that purpose in its LTCCP. The embargo was proposed by a council committee as part of the Council's 2004-05 planning process, and was adopted by the Council without discussion.
- 3.425 In April 2004, a Local Government Commission determination halved the number of city councillors with effect from the 2004 local authority elections. At the mayor's request, council officers were asked for options to redevelop the existing council chamber to make it suitable for the smaller council and to have the upgraded chamber ready for the new council after the 2004 elections.
- 3.426 In August 2004, the mayor invited all councillors and executive staff to an informal presentation on proposed renovations to the council chamber. No minutes were taken. In October 2004, with the mayor's approval, council officers let 2 contracts, totalling \$802,336. One contract was to renovate the council chambers and the other related contract involved alterations to enable more council staff to be located in the civic offices. The second contract had not been discussed at the informal presentation.

- 3.427 We received a complaint from a former councillor that the expenditure on renovating the council chamber and the related contract was inconsistent with the earlier decision of the Council to embargo spending on the council buildings apart from essential maintenance.
- 3.428 We found that the expenditure was inconsistent with the Council's embargo as the work was not "essential maintenance". We also found that it should have been referred back to the Council for formal decision. We noted that the expenditure had been approved by the mayor following the informal presentation, and that no-one involved considered the effect of the earlier embargo.
- 3.429 The inquiry showed a need by the Council to consider the adequacy of its decision-making processes to ensure that decisions of the Council were actually implemented. In this case:
- Council officers should have considered the effect of the embargo, given that the Council needed to continue to occupy the buildings for the next 5 to 10 years. This would have determined whether or not the embargo could be implemented.
 - Informal meetings are useful for sharing information and enabling discussion, especially of complex issues or information that may need to be explained by council officers. However, they are not able to be used for decision-making. In this case, the decision-makers involved attached significance to the fact that no objections to the expenditure on renovation had been made during the informal presentation. However, that did not remove the need for a formal decision-making process to occur, particularly as workshops and informal meetings do not have decision-making authority or allow for public transparency.

Transport consultation and decision-making

- 3.430 Issues arising from major local authority transport decisions have been the subject of ratepayer correspondence this year, particularly in the Wellington, Auckland, and Tauranga areas. The issues raised generally cover the adequacy of consultation undertaken, the lack of options in consultation, and the level of robustness of the underlying information that supports the decision-making processes.
- 3.431 Transport decision-making is subject to a range of decision-making processes. There are several major pieces of legislation that play a significant role at some stage in transport planning and decision-making:
- the Land Transport Act 1998;
 - the Land Transport Management Act 2003;

- the Local Government Act 2002; and
 - the Resource Management Act 1991.
- 3.432 There are many “layers” of government that have a role in decision-making processes at policy and implementation levels. Cabinet makes major transport investment decisions. At central government level, there are a number of agencies with a range of functions, such as the Ministry of Transport, Land Transport New Zealand, and Transit New Zealand. (There have also been organisational changes in 2004, with Transfund New Zealand and the Land Transport Safety Authority merging to form Land Transport New Zealand.)
- 3.433 Regional authorities are required to develop regional land transport strategies. These are sometimes supported or accompanied by regional land use plans or strategies, such as the Regional Growth Strategy in Auckland or Smart Growth in Tauranga. We would expect some level of convergence between these plans, but have not investigated this. However, we note that transport legislation for Auckland requires Auckland local authorities to change the policy statement and plans prepared under the Resource Management Act to integrate the land transport and land use provisions, and to make those provisions consistent with the Auckland Regional Growth Strategy.¹²
- 3.434 Local authorities are also required to develop land transport programmes. Section 13 of the Land Transport Management Act states that a local authority need not prepare a land transport programme if certain conditions are met – for instance, if the LTCCP includes all the relevant matters. In practice, however, local authorities engage in transport planning as part of their asset management and LTCCP planning, and the land transport programme becomes part of this planning process.
- 3.435 Many, but not all, aspects of transport decisions include some form of public consultation process. At a local level, community input is through formal consultation on draft plans, and sometimes through having representatives on regional land transport committees. LTCCPs must have been through a statutory consultation process, and community views must have been considered, before they are finally adopted. Land Transport New Zealand has indicated that national transport planners will be looking at LTCCPs to determine local and regional transport priorities.
- 3.436 In addition, once plans are determined, most transport infrastructure development would be subject to the Resource Management Act provisions through the consent process. This process also provides an opportunity for objections and a range of considerations to be heard in public.

¹² Local Government (Auckland) Amendment Act 2004, section 3(b).

- 3.437 This complex environment is a difficult one for the community to comprehend, for effective consultation and decision-making. We have been asked by ratepayers to inquire into whether or not consultation has been adequate, whether or not options provided to the public meet the legislative requirements, and whether or not information is robust.
- 3.438 Our local government team has looked at local authority processes by which information (both technical and from the community) is gathered, and the processes of decision-making.
- 3.439 We are considering these transport issues at both central and local government level, and will be maintaining a watching brief.

Codes of conduct

- 3.440 The Auditor-General received a number of enquiries over the last year in which ratepayers expressed concerns about some of their local elected members' behaviour. The correspondents often sought the Auditor-General's assistance in using the code of conduct to "control" what the ratepayer considered to be unsuitable behaviour.
- 3.441 Since 1 July 2003, local authorities have been legally required to have a code of conduct for their members. This was a new requirement introduced by the 2002 Act. An authority's code of conduct must set out the understandings and expectations adopted by the authority about the manner in which members may conduct themselves, including how they behave toward each other, staff, and the public. The code must also cover members' use and disclosure of information that they receive in their capacity as members.
- 3.442 The 2002 Act states that a member must comply with the code, but a breach is not an offence under the Act.
- 3.443 It is not our role to consider complaints under codes of conduct, or to enforce codes. Local authorities are responsible for dealing with such matters. The 2002 Act does not prescribe what mechanisms or sanctions should be in place to ensure that the adopted understandings and expectations are complied with, but most councils have included some form of committee (in some cases including external "impartial" members) to review complaints received by the public.
- 3.444 While the Auditor-General does not have a role in enforcing compliance with codes of conduct, we are undertaking a performance audit in the area. The audit will examine how local authorities have given effect to the new requirement, and how codes of conduct are being used by members, council staff, and the public. We will not question whether codes of conduct are a good or bad thing in themselves, but will focus on how local authorities are implementing the requirement and will comment on problems they may have encountered in doing so.

Part 4

Reserve Boards

4.1 Reserve Boards – financial overview

Introduction

- 4.101 The purpose of this article is to provide an overview of the financial performance of Reserve Boards since we last reported on the sector in 1998.¹ It continues our practice of reporting, on a rotational basis, the financial performance of the smaller sectors that fall within the Auditor-General’s mandate in our annual “results of the audits” reports.²
- 4.102 Reserve Boards are appointed under the Reserves Act 1977 (the Act) to control and manage reserve land.
- 4.103 The Auditor-General is the auditor of 29 Reserve Boards under section 88A(2) of the Act and section 15 of the Public Audit Act 2001.
- 4.104 Reserve Boards are one type of Board appointed under the Act, which defines Boards as any “Reserves Board, Trust, Trust Board, or other special Board appointed under this Act or any corresponding former Act”³
- 4.105 A Board is also one of several types of Administering Body defined in the Act as –
*“Administering body”, in relation to any reserve, means the Board, Trustees, local authority, society, association, voluntary organisation, or person or body of persons, whether incorporated or not, appointed under this Act or any corresponding former Act to control and manage that reserve or in which or in whom that reserve is vested under this Act or under any other Act or any corresponding former Act; and includes any Minister of the Crown (other than the Minister of Conservation) so appointed.*⁴
- 4.106 The Auditor-General is also the auditor of a small number of these administering bodies, primarily boards of Racecourse Trustees. Administering bodies are not covered by this article.

Overview of financial performance

- 4.107 The information in Figure 4.1 is based on figures extracted from the most recently audited annual report of each Reserve Board (except as noted otherwise).

1 Our *First Report for 1998*, parliamentary paper B.29[98a], pages 137-142, reported on issues associated with the audit of Cemetery Trustees and Reserve Boards.

2 In last year’s *Local Government: Results of the 2003-04 Audits* report (parliamentary paper B.29[05b]), we provided an update on the financial performance of the Provincial Patriotic Councils sector. Next year we intend to report on the Cemetery Trustees sector.

3 Section 2, Reserves Act 1977.

4 Ibid.

- 4.108 In our 1998 report, we drew attention to the fact that many Boards were in arrears in preparing their annual financial statements. We noted that 145 sets of accounts were in arrears over a period of 10 years for the then 61 administering bodies (including Reserve Boards). Since writing that article, the situation has improved. However, as can be seen from Figure 4.1, some Boards are still having difficulty, because the most recent accounts that we have received and audited for some Boards is for the year ended 30 June 2002 or 2003.
- 4.109 In our 1998 report we also drew attention to the reporting requirements of Reserve Boards, noting that many Boards were having difficulty complying with their reporting obligations and this had, in part, contributed to an increase in the number of Boards that were in arrears.
- 4.110 Under the now repealed (but still in force) section 41B of the Public Finance Act 1989, the Minister of Finance may grant an exemption from the financial reporting requirements of the Act. The section also allows the Minister to require a Board to include other statements, figures, or accounts in place of the statements dispensed with.
- 4.111 Since our 1998 report, the Minister has exercised his discretion and exempted Reserve Boards below specific financial thresholds from some of the Public Finance Act 1989 reporting requirements. This exemption has made the reporting requirements less onerous, and has assisted with reducing the number of Boards that are in arrears in preparing their annual financial statements.

Crown Entities Act 2004 and Public Finance Amendment Act 2004

- 4.112 The Crown Entities Act 2004 and the Public Finance Amendment Act 2004 affect the financial reporting arrangements of Boards from 1 July 2006.
- 4.113 Before the Public Finance Amendment Act 2004 was enacted, Boards were Crown entities under the Public Finance Act 1989 and were required to prepare financial statements under that Act. The Public Finance Amendment Act 2004 amended the Reserves Act 1977 and the Public Finance Act 1989 so that Boards are deemed to be Crown entities for some purposes only. Boards are listed on a new Schedule 4 of the Public Finance Act 1989, which lists a number of individual entities and classes of entity, such as Boards and Fish and Game Councils.
- 4.114 As the new financial reporting regime in sections 153 to 156 of the Crown Entities Act 2004 does not apply to Boards until the year beginning 1 July 2006, financial reporting and audit until that time is under the Public Finance Act 1989 as if that Act had not been amended by the 2004 Amendment Act.

Figure 4.1
Summary of Reserve Boards' most recent audited financial information

Reserve Board	Year of latest audited figures	Income \$	Expenditure \$	Surplus/ (Deficit) \$	Equity \$
Awakaponga	2005	2,340	6,948	(4,608)	163,024
Charleston*	1996-2002	–	–	–	33,325
Coates	2003	421	681	(260)	2,271
Homewood	No recent figures available				
Kaiteriteri	2004	3,210,503	2,828,860	381,643	3,366,246
Kyeburn	2003	2,943	1,036	1,907	21,554
Lake Horowhenua	2004	1,286	1,023	263	36,507
Lake Okataina	2005	18,958	15,418	3,540	43,638
Lake Rotoiti	2005	7,000	7,911	(911)	16,728
Mapiu	2004	5,739	7,211	(1,472)	84,837
Mataroa	2003	1,049	2,121	(1,072)	21,633
Matata	2005	37,662	28,784	8,878	52,078
Millerton	2004	10,782	6,042	4,740	40,072
Moutoa Gardens**	2003	226,942	21,034	205,908	205,908
Nelson Creek	2002	3,680	1,227	2,453	29,107
Oakura	2003	10,144	7,165	2,979	1,046,721
Ohau	2002	2,673	8,599	(5,926)	106,234
Owhango	2002	2,045	4,819	(2,774)	29,791
Papanui	2003	606	1,464	(858)	13,281
Poukioie	2005	4,604	3,446	1,158	61,553
Ruakaka	2004	241,970	248,416	(6,446)	405,784
Ruakaka Central***	2004	10,018	3,571	6,447	37,668
Ruawhata	2005	1,147	293	854	4,120
Taurikura	2005	928	3,258	(2,330)	142,546
Tiriraukawa	2003	1,009	1,401	(392)	35,927
Waikiekie	2004	10,008	7,791	2,217	129,903
Waipu Cove	2004	439,805	340,108	99,697	1,402,168
Whatitiri	2004	3,356	6,543	(3,187)	106,376
Whitireia Park	2005	23,618	37,864	(14,246)	134,724

* Sufficient and appropriate prime source documentation was not available to enable receipts and payments to be accurately reflected in the Statement of Receipts and Payments.

** Figures are unaudited.

*** Figures are for the year ended 30 September, and are unaudited.

- 4.115 The Minister's exemption power in section 41B of the Public Finance Act 1989 is replaced by a new power in section 39A(1) of the Reserves Act 1977, as amended by the Public Finance Amendment Act 2004.⁵ Our understanding is that the Minister's current exemption will continue to apply to the 30 June 2006 reporting period, unless revoked or replaced.

Conclusions

- 4.116 The timeliness of reporting by Reserve Boards has improved since we last reported on the sector in 1998. However, some Boards remain several years in arrears. Our appointed auditors will continue to work with those Boards to improve the timeliness of their reporting.
- 4.117 Because of the legislative changes affecting the financial reporting arrangements of Boards from 1 July 2006, it may be necessary to review and confirm the current reporting exemptions provided to Boards. We understand that the Treasury and the Department of Conservation have written to Boards advising them of the changes to the Public Finance Act 1989 and, as part of that process, they have indicated that this matter will be considered.

5 Section 39A of the Reserves Act 1977, as amended by the Public Finance Amendment Act 2004, provides that a Board may, with the consent of the Minister of Finance, dispense with preparing any of the statements referred to in section 150 (annual report), section 153 (statement of service performance), or section 154 (annual financial statements) of the Crown Entities Act 2004.

Part 5

Local Authorities (Members' Interests) Act 1968

5.1 Issues and options for reform

- 5.101 In 2005, we published a report entitled *The Local Authorities (Members' Interests) Act 1968: Issues and options for reform*.¹ The report was a discussion paper that highlighted the difficulties we see with the current Local Authorities (Members' Interests) Act 1968 (the Act) and suggested options for improving it.
- 5.102 The Act provides rules about members participating in matters in which they have a pecuniary interest that come before the governing body or a committee of the local authority, and about contracts between members and the local authority.²
- 5.103 The Office of the Auditor-General carries out the primary statutory functions under the Act. This role gives us a unique perspective on how the Act works, and highlights on a daily basis a number of practical difficulties with the Act.

What did we say about the Act?

- 5.104 For a long time, we have considered that the Act is in need of an overhaul. The Act is 37 years old. Various initiatives to review and reform it were promoted in 1983-84, 1993, and 1996, but without success. Twice previously in recent years, we have expressed our view to Parliament that a modern restatement of the law is desirable.³
- 5.105 The purpose of our 2005 report was to outline the main problems we have encountered with the Act over the years, and to promote consideration of how they might be remedied. The report described the issues that we consider will need to be addressed if the Act is to be redrafted, and offered a preliminary view about how some of them might be dealt with. Although some of the issues can be described as technical or administrative, others are policy issues that ought to be the subject of debate and decision by others. The report was intended to stimulate discussion amongst stakeholders and policy makers about the future of the Act, and to help focus that discussion on what we see as the most important issues. We did not attempt to present a ready-made solution.

1 ISBN 0-478-18138-8.

2 For more information about the Act generally, see our 2004 publication *Conflicts of interest – A guide to the Local Authorities (Members' Interests) Act 1968 and non-pecuniary conflicts of interest*, ISBN 0-478-18121-3.

3 *Local Government: Results of the 2001-02 Audits*, parliamentary paper B.29[03b], 2003, part 2.4; and *Second Report for 2000: Local Government Matters*, parliamentary paper B.29[00b], 2000, part 7. Local government law practitioners have also commented on the need to reform the Act. See, for example, Sheard, Denis, *Conflicts of Interest Involving Members of Local Authorities*, unpublished paper presented to the 4th Annual LexisNexis Local Government Legal Forum, April 2005.

- 5.106 Our report discussed many matters of detail. Some of the more significant views we advanced were:
- The entire Act needs to be rewritten.
 - It is desirable to continue to have legislation that fulfils the function of the discussing and voting rule in section 6 of the Act.
 - We doubt that the contracting rule in section 3 of the Act needs to be retained.
 - A wholly civil penalty for breach of the rules may be more effective than the current criminal sanction.

What happens now?

- 5.107 In our report, we provided some thoughts on areas of the Act that could be enhanced. It is not appropriate for us to draft the provisions of any new Act. Decisions on policy questions are for others to make.
- 5.108 The Department of Internal Affairs has included the topic on its policy work programme for 2005-06. It plans to undertake some policy work and consultation with the sector about whether or not to promote a revision of the Act. We expect to provide the Department with ongoing assistance in its work.
- 5.109 One of the areas of greatest uncertainty surrounds the eligibility of candidates for election.⁴ A candidate who has existing contractual relations with their local authority can find it very difficult to confidently determine whether or not they are eligible to stand for election. Therefore, if new legislation is to be enacted in this area, we consider it desirable for such legislation to be in place by the time of the next local elections (which are due to be held in October 2007).⁵ We urge the Department to give priority to its policy work so that this objective can be achieved.

4 See paragraphs 3.23-3.26 of the report.

5 It may also be desirable for any legislative changes to come into force on the date of those elections, because of the potential for them to affect the position of existing members.

Part 6

Performance audits undertaken in 2004-05

6.1 Freshwater management

- 6.101 Regional councils are responsible under the Resource Management Act 1991 (the RMA) for managing the freshwater resources in their regions. This is not a simple task – it requires the councils to manage competing priorities to both use and protect our freshwater resources.
- 6.102 In May 2005, we published a report of a performance audit that looked at how the RMA framework had been implemented by the Horizons Regional Council and the Otago Regional Council to manage freshwater in their regions.¹
- 6.103 These 2 councils were selected for audit not because of any particular performance issues but because we wished to identify regional councils with pressures on the allocation and quality of water that had plans in place for water management. While we looked at only 2 councils, we expected that the main messages from the audit would be valuable for all regional councils.
- 6.104 The audit focused on 4 aspects of the activities of regional councils in managing freshwater – planning, implementation, monitoring, and acting on information.
- 6.105 Overall, we found that Horizons and Otago Regional Councils had made good progress in some areas, such as planning and implementing water allocation frameworks, but that they needed to make improvements in other areas – particularly compliance, and effectiveness and efficiency monitoring.
- 6.106 Some of the main messages from the audit include:
- Planning documents can be significantly improved by including simply worded, measurable objectives that clearly set out what the plan intends to achieve, and specifically outlining the environmental state sought.
 - Procedures for monitoring the effectiveness and efficiency of policies and methods should be linked to specific policies and methods. These should be set up while the plan is being developed. Effectiveness and efficiency monitoring is essential to determine which parts of planning documents achieve the desired goals and which do not – and therefore where improvements are required. New requirements to publicly report the results of this monitoring at least every 5 years mean that councils will need to improve the way in which they plan and carry out effectiveness and efficiency monitoring.
 - It may be timely (as councils prepare second-generation planning documents) for regional councils and territorial authorities to review their procedures for permitting intensive agricultural activities where significant effects on water quality are likely.

1 *Horizons and Otago Regional Councils: Management of freshwater resources*, ISBN 0-478-18133-7.

- Where water quality is significantly degraded, or likely to become degraded, by non-point source discharges, it may be necessary for regional councils to regulate to reduce the effects of these discharges, or to strengthen the regulation that exists. This may include (but is not limited to) requiring nutrient budgeting, reduced fertiliser application, or the planting of riparian margins.
- Responding to complaints is part of the “public face” of regional councils. When members of the community perceive that regional councils are not fulfilling this role, they can become frustrated and lose faith in the council’s ability to protect the environment. This, along with reducing the negative effects of environmental incidents, is an important reason to promptly respond to, and investigate, pollution incidents.

6.2 Achieving public sector outcomes with private sector partners

- 6.201 The term “partnering” can be used to describe a wide range of mutually beneficial commercial relationships between the public and private sectors. Examples range from contracts involving private financing and ownership of public infrastructure by the private sector to arrangements where public and private sector organisations work closely together as one team, sharing risks and rewards.
- 6.202 In general, the power of a public entity to enter a partnering arrangement is subject to any procedural or substantive restrictions imposed by statute. In the case of local government, the only substantive restrictions concern water and wastewater services.
- 6.203 Local government’s interest in partnering is increasing. A variety of arrangements have been set up already, such as:
- contracts to design, build, and operate facilities;
 - joint ventures;
 - franchises; and
 - project alliances.
- 6.204 These arrangements can be for a long term, possibly 20 or 30 years, especially if they involve designing, constructing, and operating infrastructure. Few projects so far have involved private financing, though local government appears to be interested in using private financing to deliver projects in the future.

Our report

- 6.205 We have researched the main issues that need to be considered by any public organisation thinking about entering into a partnering arrangement. Our report *Achieving public sector outcomes with private sector partners* was published in early 2006.²
- 6.206 Our report:
- examines overseas jurisdictions’ experiences with partnering, with a view to learning from those experiences;
 - identifies existing and planned partnering arrangements in New Zealand, and selects 5 case studies to provide examples;
 - discusses various aspects of partnering, such as governance, risk allocation, managing performance, and accountability; and
 - sets out our broad expectations in these areas.
- 6.207 Our report does not advocate or oppose the use of partnering.

2 ISBN 0-478-18149-3.

Our expectations

- 6.208 The 2 main expectations that we have for any public entity entering into a partnering arrangement are a high level of expertise and a sound business case to support its decision. The business case should clearly demonstrate how the chosen partnering arrangement fits with, and helps to achieve, the vision and policy objectives of the public entity. It should also show how a partnering approach would result in better value for money compared to other procurement options.
- 6.209 A value-for-money assessment should consider the benefits of opting for a partnering approach against the costs of doing so. The main issue will be whether the way it is proposed to allocate risks between the parties achieves value for money.
- 6.210 Public entities are ultimately accountable for delivering public services, which is a responsibility they cannot transfer to the private sector. It will be imperative for the public entity to have robust internal arrangements in place for making the decision to opt for a partnering approach, and for managing its implementation. This will require strong leadership from the top of the organisation to drive the process and ensure proper accountability and control. Roles and responsibilities should be clearly defined, relevant authorities and delegations should be identified, and adequate arrangements for public scrutiny of performance under the contract should be set up.
- 6.211 It will also be vital to ensure that the process for selecting a private sector partner is fair and transparent, and stands up to public scrutiny.
- 6.212 The public entity should be aware that its responsibilities do not end once the contract is awarded. It will be important to set up and maintain effective contract management arrangements throughout the life of the partnering arrangement. The responsibilities of both parties will need to be defined in contract documentation, including responsibilities for managing relationships, risks, assets, and performance. Accountability requirements will also need to be clearly defined.
- 6.213 Our report was prepared with local authorities in mind, and should be of specific interest to the sector. We are aware that a range of different partnering models has been considered and used in the sector. We particularly draw the sector's attention to the 5 case studies discussed in the appendices to our report, all of which concern local government projects.

6.3 Heritage assets

- 6.301 Museums and art galleries are an important part of our communities, and their collections represent a vital public inheritance. Public museums and galleries, and a number of private ones too, rely heavily on local authority funding to meet their operational and capital costs. Funding these bodies is one important way in which local authorities demonstrate their commitment to the cultural well-being of their communities.
- 6.302 A museum's collection is at the heart of its everyday work, and critical to the services it provides to the public. As part of our 2005-06 work programme we carried out a performance audit that examined the management of heritage collections in a selection of local museums and art galleries.
- 6.303 This was a major project, involving a number of audits in small and large museums and art galleries. Our report, published in April 2006, summarises the findings from those audits, setting out the requirements for responsible collection management, describing good practices, and raising issues for consideration by museums and galleries.³
- 6.304 The report is also directed at local authority managers and councillors. It explains the context in which collections are managed, shows how collection management supports the core activities of a museum or gallery, and illustrates the relationship between collection activities and the range of services delivered by a museum. It also seeks to promote an understanding of the resources needed to meet the obligations of responsible stewardship.
- 6.305 Museums and galleries generally had in place the necessary components for sound collection management. We also found room for improvement. Matters directly relevant to local authorities include:
- consideration of areas where additional funding would strengthen capability and the quality of collection management;
 - the need for meaningful standards and performance measures for reporting; and
 - more systematic oversight of funding agreements.
- 6.306 We are concerned at the financial reporting of most collections. Current New Zealand financial reporting standards require collection assets to be recognised in financial statements. However, there is a lot of non-compliance with this requirement by the museums and galleries that we audit.
- 6.307 It is interesting to note recent international developments in accounting for heritage assets, the main development of which is a discussion paper issued by the United Kingdom's Accounting Standards Board and the International Public

³ *Management of heritage collections in local museums and art galleries*, ISBN 0-478-018153-1.

Sector Accounting Standards Board.⁴ That paper includes proposals that are quite closely aligned with current New Zealand financial reporting requirements. We will continue to observe international developments.

4 This is available at www.frc.org.uk/asb/technical/projects/project0066.html.

Part 7

Areas of focus for 2006-07

7.1 Proposed work programme

- 7.101 Each year, we consult with relevant stakeholders as a step in determining the Auditor-General's proposed work programme for the following year. The full planning process is set out in our Annual Plan.
- 7.102 This article provides an update on work proposed for the local government sector and other performance audits in 2006-07.

Current and proposed work in the local government sector

Local government asset management, business planning, and risk integration

- 7.103 We have become concerned that asset management plans are not informing maintenance and development work as intended. We have taken a sustained interest in asset management for the last 15 years. We have generally focused on assessing the state of asset management and encouraging councils to improve the preparation of asset management plans. More recently, we have encouraged councils to move to enhanced plans. However, it appears that many councils still do not understand the benefit of good asset management planning, and that, while software tools are available to help councils integrate asset management information into business planning, these are not being used to their full potential.
- 7.104 We will undertake a performance audit using case studies of entities (identified through a general return in the Local Government Audit Brief) that are practising enhanced asset management planning.
- 7.105 The Local Government and Environment Committee will be offered a briefing on the outcomes of the audit, and our appointed auditors will be advised of the report through the Local Government Audit Brief. We will promote the report to the local government sector.

Local government consultation and decision-making – a guideline

- 7.106 The Local Government Act 2002 (the 2002 Act) imposes principle-based decision-making obligations that local authorities are embedding in their management processes, to give best effect to their purpose of promoting long-term, sustainable well-being, and democratic decision-making and actions. Local authorities also face risks if their decisions can be shown to be unreasonable, or if due process has not been observed.

- 7.107 We have dealt with a number of ratepayer enquiries about local authorities' decision-making and consultation obligations. The areas of public concern focus around the robustness of business cases, the level of option analysis, and disclosure of this information for consultation. There is also concern about how "the 4 well-beings" (social, economic, environmental and cultural) are being considered in decision-making processes.¹
- 7.108 During 2005, the Society of Local Government Managers (SOLGM) prepared guidance material for the sector that will supplement the original high-level guidance produced by sector organisations and the Department of Internal Affairs. This is expected to be available to the sector in 2006.
- 7.109 We intend to produce a guidance document in early 2007 that will supplement the guidance prepared by SOLGM. We will work with the sector, and gather together international and local good practice examples of decision-making and consultation that, in our view, meet the intent of the 2002 Act and demonstrate innovative practice.

Rates postponement

- 7.110 The Local Government (Rating) Act 2002 introduced a number of changes to rating and potential rating policy by allowing more flexibility in a range of areas. One of those areas was the ability of councils to establish policies for postponing rates on grounds other than financial hardship.
- 7.111 The Rates Postponement Consortium is a group of 6 councils that has been established to offer rates postponement to their ratepayers. The rates accrued on a property, as well as interest and administration charges, are paid to the council when the property is sold.
- 7.112 The objective of this audit is to provide assurance that councils are administering rates postponement schemes in the interests of all ratepayers.
- 7.113 In particular, the audit aims to provide:
- Parliament and local authorities with a clear understanding of the nature of rates postponement schemes;
 - assurance over the sustainable development aspect of decision-making in regard to rates postponement schemes;
 - assurance over councils' risk management with regard to the schemes;
 - assurance that councils have accurately informed ratepayers about their rates postponement schemes and the potential effects of those schemes for the council and ratepayers;

1 See section 77 of the Local Government Act 2002.

- assurance over the legal compliance of the schemes; and
- a summary of important points of good practice for other councils that may be considering such schemes.

7.114 We plan to report to Parliament on this performance audit later in 2006.

Report on the result of LTCCP audits

7.115 As noted in paragraph 2.176, we intend to formally report to Parliament on our work on, and experiences from, completing audits of the 2006-16 Long-Term Council Community Plans (LTCCPs). For both the local government sector and us, this was the first time prospective information within the local government context has been audited.

7.116 We recognise the importance of feeding our observations and lessons learned from these results back into the sector. Planning is important and will remain so for the sector.

7.117 The full scope of our report and the consideration of any matters have yet to be finalised. However, we see it as a priority once the final LTCCP opinions have been completed in June 2006.

Proposed performance audits for 2006-07

Land information management systems

7.118 Land Information Memoranda (LIMs) are the most important mechanism available from local authorities for property owners to obtain information about risks that might affect their property. Anecdotally, there have been concerns about the approaches to, and the quality of, recording land information for LIMs. We consider there to be potential for a review based on the expectations detailed in the SOLGM legal compliance modules and relevant case law.

7.119 A performance audit is proposed that would review the systems, policies, and procedures for recording land information for LIMs.

Waste management

7.120 The 2002 Act requires local authorities to have adopted a waste management plan by 30 June 2005. Most local authorities had such plans already, but there has been concern about the usefulness of the plans. The management of waste is an important issue for environmental sustainability that also has significant financial effects for councils.

- 7.121 The Local Government and Environment Committee has a general interest in waste management policies and has previously asked the Auditor-General to review them. Our review of a council's financial planning documents also showed potential for council policies – such as Zero Waste – to not match the content of plans to give effect to such policies.
- 7.122 A performance audit is proposed to examine how councils give effect to waste management plans, possibly taking a case study approach and considering some councils with zero waste policies.

Collaboration in roading

- 7.123 The Land Transport Management Act 2003 potentially provides more scope for shared services and public-private partnerships. We propose to review some early forerunners of public-private partnerships for learning that may assist other initiatives that could emerge.
- 7.124 We propose to undertake a performance audit to examine the effectiveness of collaborative approaches (between local authorities and Transit New Zealand) to the provision of roading.

Sustainable development – implementation of programme of action

- 7.125 In 2002, an international working group of Auditors-General encouraged audits of government responses to the Johannesburg World Summit on Sustainable Development. New Zealand's Programme of Action, published in January 2003,² involves a whole-of-government approach in 4 work areas – water, energy, sustainable cities, and child and youth development.
- 7.126 Our proposed performance audit will assess the effectiveness of the response to the Programme of Action by looking at selected aspects of the Programme. We will look for opportunities to collaborate with government agencies on the audit. The relevant select committees will be offered a briefing, and we will also look for ways to promote the audit's findings to government agencies and internationally.

Flood risk management

- 7.127 Our planned performance audit on flood risk management has been deferred, because the Ministry for the Environment is leading a 2-year work programme to improve how New Zealand manages its flood risk and river control. We will reassess the need for this performance audit at the conclusion of the Ministry's work programme.

² *Sustainable development for New Zealand: Programme of action*, ISBN 0478-263260, available at www.beehive.govt.nz/hobbs/30199-med-susined-developm.pdf.

7.128 Our proposed performance audit was to review the site management practices of local authorities, including their management of flood-related assets, and their procedures when floods occur. The audit was to assess the effectiveness of flood protection assets associated with 2 floods that occurred in 2004, and had the aim of improving local authority management of such assets.

Appendix 1

Details of the non-standard audit reports issued

These details relate to non-standard audit reports issued during the period 1 April 2005 to 31 December 2005, as listed in Figure 1.6.

Full adverse opinions

Southland Museum and Art Gallery Trust Board Incorporated^a

Financial statements period ended: 30 June 2005

The Board did not recognise the museum and gallery collection assets it owns, nor the associated depreciation expense, in its financial statements. These are departures from Financial Reporting Standard No. 3: *Accounting for Property, Plant and Equipment*, which requires museum collection assets not previously recognised to be recognised initially at fair value and depreciated. In addition, the Board did not prepare a Statement of Intent for the year commencing 1 July 2004 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that fairly reflected its achievements measured against its performance targets. We also drew attention to the fact that the Board breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2005.

The Museum of Transport and Technology Board

Financial statements period ended: 30 June 2005

The Board did not recognise the museum collection assets it owns, nor the associated depreciation expense, in its financial statements. These are departures from Financial Reporting Standard No. 3: *Accounting for Property, Plant and Equipment*, which requires museum collection assets not previously recognised to be recognised initially at fair value and depreciated.

Okuru Public Hall Board

Financial statements period ended: 12 June 2003

The Board did not prepare its annual financial statements in accordance with the Public Finance Act 1989, and the financial statements did not comply with generally accepted accounting practice in New Zealand. In addition, the Board did not maintain appropriate accounting records, and the limited financial information presented did not fairly reflect the Board's assets, liabilities, receipts, and payments. We highlighted that the going concern assumption appropriately had not been used in the preparation of the financial statements because the Hall Board was disestablished and its assets and liabilities were vested in Westland District Council on 12 June 2003.

Partial adverse opinions

Wairarapa Cultural Trust^b

Financial statements period ended: 30 June 2005

The Trust did not recognise the general collection assets it owns, nor the associated depreciation expense, in its financial statements. These are departures from Financial Reporting Standard No. 3: *Accounting for Property, Plant and Equipment*, which requires general collection assets not previously recognised to be recognised initially at fair value and depreciated. In addition, we were unable to verify some material revenues due to limited control over those revenues. However, in our opinion, the financial statements fairly reflected the cash flows.

Otago Museum Trust Board^d

Financial statements period ended: 30 June 2005

The Board did not recognise all of the museum collection assets it owns, nor the associated depreciation expense, in its financial statements. These are departures from Financial Reporting Standard No. 3: *Accounting for Property, Plant and Equipment*, which requires museum collection assets not previously recognised to be recognised initially at fair value and depreciated. However, in our opinion, the financial statements fairly reflected the cash flows, and the performance information fairly reflected the achievements measured against the performance targets for the year.

Tasman Bays Heritage Trust Incorporated^d

Financial statements period ended: 30 June 2005

The Trust did not recognise all the collection and exhibit assets donated from 1 July 2000 to 30 June 2005, nor the associated depreciation expense, in its financial statements. This is a departure from Financial Reporting Standard No. 3: *Accounting for Property, Plant and Equipment* (FRS-3), which requires donated assets to be recognised at fair value at the date of acquisition and to be subsequently depreciated. In addition, the Trust did not account for a material impairment of the building from which it operates. This is also a departure from FRS-3, which requires an asset that is impaired to be written down to its recoverable amount where that amount is less than its carrying amount. However, in our opinion, the financial statements fairly reflected the cash flows, and the performance information fairly reflected the achievements measured against the performance targets for the year.

Except-for opinions

North Shore Domain and North Harbour Stadium Trust Board^e

Financial statements period ended: 28 February 2005

The Board did not prepare a Statement of Intent for the year ended 30 June 2005 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that fairly reflected its achievements measured against its performance targets. We drew attention to the fact that the Board breached the law because it did not adopt a balance date that was consistent with its parent entity. We also drew attention to the fact that the Trust Board breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2005. In addition, we drew attention to uncertainties surrounding the going concern assumption. The validity of the going concern assumption was dependent on the continued financial support of the Trust Board's parent entity.

Ticket Direct Central^f

Financial statements period ended: 30 June 2005

The entity did not prepare a Statement of Intent for the year ended 30 June 2005 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that fairly reflected its achievements measured against its performance targets. We drew attention to the fact that the entity breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2005.

Whangarei Art Museum Management Group Trust^g

Financial statements period ended: 30 June 2005

The Trust did not prepare a Statement of Intent for the year ended 30 June 2005 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that fairly reflected its achievements measured against its performance targets. We drew attention to the fact that the Trust breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2005.

Whangarei Tourism Trust^h

Financial statements period ended: 30 June 2005

The Trust did not prepare a Statement of Intent for the year ended 30 June 2005 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that fairly reflected its achievements measured against its performance targets. We drew attention to the fact that the Trust breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2005.

Waimate Medical Centre Limitedⁱ

Financial statements period ended: 30 June 2005

The company did not prepare a Statement of Intent for the year ended 30 June 2005 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that gave a true and fair view of its achievements measured against its performance targets. We drew attention to the fact that the company breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2005.

Invercargill Community Sports and Recreation Trust^j

Financial statements period ended: 30 June 2005

The Trust did not prepare a Statement of Intent for the year ended 30 June 2005 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that fairly reflected its achievements measured against its performance targets. We drew attention to the fact that the Trust breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2005.

Hawke's Bay Economic Development Trust^k

Financial statements period ended: 30 June 2005

The Trust did not prepare a Statement of Intent for the year ended 30 June 2005 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that fairly reflected its achievement measured against its performance targets. We highlighted that the going concern assumption appropriately had not been used in the preparation of the financial statements because the operations of the Trust were to be transferred to Hawke's Bay Incorporated when the Trust ceases to trade.

Advance Whangarei Limited^l

Financial statements period ended: 30 June 2004

The Company did not prepare a Statement of Intent for the year ended 30 June 2004 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that gave a true and fair view of its achievements measured against its performance targets.

South Canterbury Rural Fire District Committee^m

Financial statements period ended: 30 June 2005

The Committee did not prepare a Statement of Intent for the year ended 30 June 2005 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that fairly reflected its achievements measured against its performance targets.

Waste Disposal Servicesⁿ

Financial statements period ended: 30 June 2005

We disagreed with the accounting treatment of the landfill improvements asset. The asset was overstated because capitalisation of the closure and post-closure costs in 2003 was not applied back over the periods to which they related and therefore depreciation for previous periods was understated.

Bond Contracts Limited^o

Financial statements period ended: 30 June 2004

We were unable to verify the company's share of a loss made by an associate (not a public entity) because the shareholders of the associate elected not to have an audit undertaken and there were no satisfactory audit procedures to obtain sufficient evidence to verify the loss made by the associate.

Transwaste Canterbury Limited and Group^p

Financial statements period ended: 30 June 2005

We were unable to form an opinion on the comparative figures presented for the group because the financial statements of the company's subsidiary had not previously been audited. However, in our opinion, the financial statements of the company and group gave a true and fair view of the financial position, results of operations and cash flows, and its achievements measured against performance targets for the year.

Royal Wanganui Opera House Board^q

Financial statements period ended: 30 June 2004

The financial statements of the Board had not previously been audited. We therefore did not form an opinion about the comparative information. In our opinion, the Board's financial position and the results of its operations for the year were fairly stated.

Waikouaiti Events and Cultural Centre and Town Park Trust^r

Financial statements period ended: 30 June 2004

The financial statements of the Trust had not previously been audited. We therefore did not form an opinion about the comparative information. In our opinion, the Trust's financial position and the results of its operations for the year were fairly stated.

S J Ashby Boatbuilders Limited^s

Financial statements period ended: 30 June 2005

The financial statements of the company had not previously been audited. We therefore did not form an opinion about the comparative information. In our opinion, the company's financial position, the results of its operations and cash flows, and the company's performance achievement gave a true and fair view.

North Canterbury Fish and Game Council

Financial statements period ended: 31 August 2005

We were unable to verify certain revenues due to limited control over the receipt of those revenues.

West Coast Fish and Game Council

Financial statements period ended: 31 August 2005

We were unable to verify certain revenues due to limited control over the receipt of those revenues.

Carparking Joint Venture^t

Financial statements period ended: 30 June 2005

We were unable to verify certain revenues due to limited control over the receipt of those revenues.

Richmond Pool Charitable Trust^u

Financial statements period ended: 30 June 2004

We were unable to verify certain revenues due to limited control over the receipt of those revenues.

Village Pool Charitable Trust^v

Financial statements period ended: 30 June 2005

We were unable to verify certain revenues due to limited control over the receipt of those revenues.

Marton Aquatic and Leisure Trust^w

Financial statements period ended: 30 June 2005

We were unable to verify certain revenues due to limited control over the receipt of those revenues.

Mapiu Domain Board (Mapiu Recreation Centre)

Financial statements period ended: 30 June 2004

The Board did not provide budgeted figures in the statements of financial performance, financial position and cash flows, and it also did not provide a statement specifying the financial performance to be achieved. These are departures from the statutory reporting requirements of the Public Finance Act 1989. In addition, we were unable to verify certain revenues due to limited control over the receipt of those revenues.

Whatitiri Domain Board

Financial statements period ended: 30 June 2004

The Board did not provide budgeted figures in the statements of financial performance, financial position and cash flows. This is a departure from the statutory reporting requirements of the Public Finance Act 1989.

Matata Recreation Reserve Board

Financial statements period ended: 30 June 2005

The Board did not provide budgeted figures in the statements of financial position and cash flows. This is a departure from the statutory reporting requirements of the Public Finance Act 1989.

Explanatory paragraphs

Central Hawke's Bay District Council

Financial statements period ended: 30 June 2004

The Council did not comply with the Local Government Act 1974 in setting operating revenues at a level adequate to cover all projected operating expenses. In particular, the Council, having consulted its community as part of the Annual Plan process, resolved not to set operating revenue at a level adequate to cover the decline in service potential (depreciation) relating to its bridges.

Whangarei District Council and Group

Financial statements period ended: 30 June 2005

We drew attention to the fact that the Council breached the law because the Council did not report some aspects of the performance of organisations it controls in its annual report as required by the Local Government Act 2002.

Invercargill City Charitable Trust^x

Financial statements period ended: 30 June 2004

We drew attention to the fact that the Trust breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2003 and, as a result, was unable to prepare performance information. However, we also drew attention to the fact that the Trust was inactive between 1 July 2003 and 30 June 2004.

Invercargill City Charitable Trust^x

Financial statements period ended: 30 June 2005

We drew attention to the fact that the Trust breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2004 and as a result was unable to prepare performance information.

RDC Holdings Limited^y

Financial statements period ended: 30 June 2005

We drew attention to the fact that the Company breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2004 and as a result was unable to prepare performance information. However, we also drew attention to the fact that the Company was inactive between 1 July 2004 and 30 June 2005.

Whangarei District Airport^z

Financial statements period ended: 30 June 2005

We drew attention to the fact that the Airport breached the law because it prepared a Statement of Intent for the year commencing 1 July 2005 after 30 June 2005 which is the date by which the Statement of Intent was required to be prepared.

Venture Taranaki Trust^{aa}

Financial statements period ended: 30 June 2005

We drew attention to the fact that the Trust breached the law because it did not prepare a Statement of Intent for the year commencing 1 July 2004. However, we also drew attention to the fact that the Trust prepared a Regional Development Strategy against which some performance measures could be reported.

Mangere Cemetery Board

Financial statements period ended: 31 March 2002

We drew attention to the fact that the Cemetery Trustees breached the law by engaging in the business of retailing headstones.

Pihama Cemetery Trustees

Financial statements period ended: 31 March 2004

We drew attention to the fact that the Cemetery Trustees breached the law by providing a loan to another local organisation.

New Zealand Mutual Liability Riskpool

Financial statements period ended: 30 June 2005

We drew attention to the fact that the going concern basis had been appropriately used in preparing the financial statements. We noted that the Trustee of the Riskpool is able to levy members to cover any shortfall in equity in any funds.

America's Cup Village Limited and Group^{ab}

Financial statements period ended: 30 June 2005

We drew attention to the fact that the going concern basis appropriately had not been used in preparing the financial statements because the company was likely to be disestablished due to the completion of the 2004 America's Cup.

New Zealand Cup Village Limited^{ac}

Financial statements period ended: 30 June 2004 and 30 June 2005

We drew attention to the fact that the going concern basis appropriately had not been used in preparing the financial statements because the company was likely to be disestablished due to the completion of the 2004 America's Cup.

Cup Property Limited^{ac}

Financial statements period ended: 30 June 2004

We drew attention to the fact that the going concern basis appropriately had not been used in preparing the financial statements because the company was likely to be disestablished due to the completion of the 2004 America's Cup.

Cup Village 2000 Limited^{ac}

Financial statements period ended: 30 June 2004 and 30 June 2005

We drew attention to the fact that the going concern basis appropriately had not been used in preparing the financial statements because the company was likely to be disestablished due to the completion of the 2004 America's Cup.

Cup Village NZ Limited^{ac}

Financial statements period ended: 30 June 2004 and 30 June 2005

We drew attention to the fact that the going concern basis appropriately had not been used in preparing the financial statements because the company was likely to be disestablished due to the completion of the 2004 America's Cup.

Far North Developments Limited^{ad}

Financial statements period ended: 30 June 2005

We drew attention to the fact that the going concern basis appropriately had not been used in preparing the financial statements because the company sold its assets and business operations during the year.

Stratford District Economic Development Trust^{ae}

Financial statements period ended: 30 June 2004

We drew attention to the fact that the going concern basis appropriately had not been used in preparing the financial statements because the Trust was disestablished on 7 June 2005 and incorporated into Stratford District Council.

Hawke's Bay Tourism Trust^{af}

Financial statements period ended: 30 June 2005

We drew attention to the fact that the going concern assumption appropriately had not been used in preparing the financial statements because the operations of the Trust will be transferred to Hawke's Bay Incorporated when the Trust ceases to trade.

Nga Tapuwae Community Facilities Trust

Financial statements period ended: 30 June 2003

We drew attention to the fact that the going concern basis appropriately had not been used in preparing the financial statements because the Trust expected to be wound up in 2005.

Ngunguru Reserve Board

Financial statements period ended: 30 June 2002 and 30 June 2003

We drew attention to the fact that the going concern assumption appropriately had not been used in preparing the financial statements because the Reserve Board was closed on 11 September 2003.

Auckland Regional Council Sinking Funds Commissioner

Financial statements period ended: 30 June 2005

We drew attention to the fact that the going concern basis appropriately had not been used in preparing the financial statements because the Sinking Fund fully settled its debts and, as a result, the Sinking Fund was terminated.

Cooks Gardens Trust Board^{ag}

Financial statements period ended: 30 June 2005

We drew attention to a note in the Board's financial statements which explains the vesting of some of the Board's assets in Wanganui District Council.

Notes

- a Council-controlled organisation (CCO) controlled by Gore District Council, Invercargill District Council, and Southland District Council.
- b Subsidiary of Masterton District Council, Carterton District Council, South Wairarapa District Council, and Masterton Trust Lands Trust.
- c CCO controlled by Dunedin City Council.
- d CCO controlled by Tasman Bays Heritage Limited.
- e CCO controlled by North Shore City Council.
- f CCO controlled by Palmerston North Showgrounds Board of Control (Arena Manawatu) and Regent Theatre Trust Board.
- g CCO controlled by Whangarei District Council.
- h CCO controlled by Whangarei District Council.
- i CCO controlled by Waimate District Council.
- j CCO controlled by Invercargill City Council.
- k CCO controlled by Hastings District Council, Hawke's Bay Regional Council, and Napier City Council.
- l CCO controlled by Whangarei District Council.
- m CCO controlled by Mackenzie District Council, Timaru District Council, and Waimate District Council.
- n CCO controlled by Manukau District Council.
- o CCO controlled by Invercargill City Holdings Limited.
- p CCO controlled by Christchurch City Council.
- q CCO controlled by Wanganui District Council.
- r Subsidiary of Dunedin City Council.
- s CCO controlled by Far North Holdings Limited.
- t CCO controlled by Christchurch City Council.
- u CCO controlled by Tasman District Council.
- v Subsidiary of Hastings District Council.
- w CCO controlled by Rangitikei District Council.
- x CCO controlled by Invercargill City Council.

Appendix 1

Details of the non-standard audit reports issued

- y CCO controlled by Ruapehu District Council.
- z Subsidiary of Whangarei District Council.
- aa CCO controlled by Stratford District Council.
- ab Subsidiary of Infrastructure Auckland.
- ac Subsidiary of America's Cup Village Limited.
- ad CCO controlled by Far North Holdings Limited.
- ae CCO controlled by Stratford District Council.
- af CCO controlled by Hastings District Council, Hawke's Bay Regional Council, and Napier City Council.
- ag CCO controlled by Wanganui District Council.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Department of Conservation: Planning for and managing publicly owned land
- Ministry of Agriculture and Forestry: Managing biosecurity risks associated with high-risk sea containers
- Annual Plan 2006-07 - B.28AP(06)
- Foundation for Research, Science and Technology: Administration of grant programmes
- Management of the West Coast Economic Development Funding Package
- Management of heritage collections in local museums and art galleries
- Central government: Results of the 2004-05 audits – B.29[06a]
- Progress with priorities for health information management and information technology
- The Treasury: Capability to recognise and respond to issues for Māori
- New Zealand Police: Dealing with dwelling burglary – follow-up report
- Achieving public sector outcomes with private sector partners
- Inquiry into the Ministry of Health's contracting with Allen and Clarke Policy and Regulatory Specialists Limited
- Maritime Safety Authority: Progress in implementing recommendations of the *Review of Safe Ship Management Systems*
- Inquiry into certain aspects of Te Wānanga o Aotearoa
- Cambridge High School's management of conflicts of interest in relation to Cambridge International College (NZ) Limited

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