



22 August 2012

File Ref: EN/LCA/03-3318

Kaipara District Council
Private Bag 1001
Dargaville 0310

Dear Mayor and Councillors

UPDATE ON OUTSTANDING MATTERS RELATED TO KAIPARA DISTRICT COUNCIL AUDITS

On 13 August 2012, I wrote to you setting out the significant outstanding matters relating to the audits of the Council's 2010/11 annual report and 2012-22 Long-Term Plan (LTP). That letter included separate letters from our Appointed Auditor on each audit, and a possible audit report wording on the 2010/11 annual report.

I understand those letters were tabled and considered by the Council in Committee on the same day, but that they have not yet been circulated more widely.

Since that date, Council management and our Appointed Auditor have continued to deal with the outstanding issues and their potential impact on the 2010/11 annual report or LTP. These matters are set out on page 3 of our letter to the Council about the annual report (headed "The outstanding issues related to the 2011 audit") and on pages 3 and 4 of our letter about the LTP audit (relating to disclosures of information within the LTP, calculations in the financial model, and performance information).

Significant matter for your attention: Financial viability

The remaining significant matter relating to both the 2010/11 annual report and the LTP is your own assessment of the Council's financial viability. Your assessment of whether the Council is a going concern is critical and requires your specific attention. I understand you met yesterday to consider this.

Our Appointed Auditor will work with the Council to finalise these matters.

Publication of our letters

In my covering letter on 13 August, I said I expected the Council to make public that letter and the attached letters about the 2010/11 annual report audit and the LTP audit. I confirm that this is still my expectation, and advise that we will publish those letters and this letter on our website today.

Yours sincerely

A handwritten signature in blue ink that reads "Bruce Robertson". The signature is written in a cursive style with a period at the end.

Bruce Robertson

Assistant Auditor-General, Local Government



13 August 2012

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Kaipara District Council
Private Bag 1001
Dargaville 0310

Dear Mayor and Councillors

OUTSTANDING MATTERS RELATED TO KAIPARA DISTRICT COUNCIL AUDITS

I am writing to highlight matters that you, as the elected members of Kaipara District Council, are responsible for resolving. I acknowledge the intense scrutiny and considerable pressure that your Council has been under in recent times, and the high degree of uncertainty around the district's complex financial situation. Under the circumstances, I encourage you to take action as soon as possible to address the matters highlighted so you can give your community a level of clarity and certainty.

Through the audit work, the audit team has identified a number of significant issues and concerns that are set out in detail in the attached:

- letter and draft audit report on the Council's annual report for the year ended 30 June 2011; and
- letter about progress on the audit of the Council's 2012-22 Long-Term Plan (LTP).

The main concerns at a high level are for the Council to establish whether it:

- is financially viable;
- has an appropriate and prudent financial strategy;
- is basing its long-term planning decisions on the right information; and
- has the capability to deal with the complex and compounding nature of the issues at hand.

These are matters that should be considered directly by you as the elected members, and that you need to decide on, with advice from Council staff.

I acknowledge the combined efforts of your own staff and the Auditor-General's Appointed Auditor Karen MacKenzie and her audit team, who have all been doing their best to deal with outstanding issues under difficult circumstances. We remain concerned that the Council relies on too few appropriately skilled staff to be in a position to resolve these issues in time to adopt the 2011 annual report and the 2012-22 LTP on 29 August 2012 as planned.

Karen MacKenzie will now complete the outstanding audit work so that, when the Council has attended to the matters raised and is ready to adopt the annual report and approve the LTP, she is in a position to issue the relevant audit reports. The audit reports will reflect how the Council decides to resolve the fundamental issues posed in the attached documents.

I appreciate that this is a difficult time for you all and know that you have the community's best interests at heart. We have tried to be as clear as we can about the issues and the implications of your decisions. If you need further clarification, please contact Karen MacKenzie in the first instance.

In closing, I expect the Council to make this letter and the attached documents public as soon as possible.
Thank you.

Yours sincerely

A handwritten signature in blue ink that reads "Bruce Robertson". The signature is written in a cursive style with a prominent initial "B".

Bruce Robertson
Assistant Auditor-General, Local Government

13 August 2012

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Dear Mayor and Councillors

AUDIT OF KAIPARA DISTRICT COUNCIL'S 2011 ANNUAL REPORT

As you will be aware, a great deal of effort has been put into preparing and auditing Kaipara District Council's draft 2011 annual report. We understand that the Council is scheduled to meet on Wednesday 29 August 2012 to adopt the 2011 annual report and the Council's final Long-Term Plan 2012-22 (LTP). Therefore, we consider that it is important to highlight:

- our observations of your current operating environment;
- what needs to be done before the 2011 annual report can be adopted;
- the outstanding issues related to the 2011 audit; and
- the nature of our audit report at present.

We have set out in a separate letter (also dated 13 August 2012) the status of our audit of the Council's LTP.

Our observations of your current operating environment

The Council is under a heightened level of scrutiny at present, not only from ratepayers but also from a Ministerial Review Team and an inquiry you asked the Auditor-General to carry out into management of the Mangawhai Community Wastewater Scheme.

Any one of these matters alone would be significant for a small council such as yours to manage. You have also had many complex issues arising during the past year or so that have required attention. Unfortunately, this has put intense pressure on a few key people within Kaipara District Council to try and resolve. The compounding nature of the issues, and the few key people to deal with them, has contributed to the 2011 annual report remaining incomplete more than nine months after the statutory deadline.

We are concerned that the Council is yet to provide us with an adopted annual report for 2010/11. Without this, we are unable to finalise our audit report and are, therefore, unable to provide assurance about information in the annual report. We remain concerned about whether the Council will be able to deal with the outstanding issues outlined in this letter and be in a position to adopt the 2011 annual report on 29 August 2012.

What needs to be done before the 2011 annual report can be adopted

In our view, the Council needs to give attention to the following matters before it will be in a position to adopt the 2011 annual report:

- Assess the ability of Kaipara District Council to remain financially viable and, if necessary, update the 2011 annual report to reflect that assessment.
- Assess any findings and recommendations of the Ministerial Review Team and, if necessary, update the 2011 annual report.
- Review the matters on which the Council must provide written representations to us – including specific written representations about the Council's financial viability – and to provide these written representations to us.

Ability of Kaipara District Council to remain financially viable

There are currently a number of conditions that create significant risks to the Council's ability to remain financially viable. To be able to continue to operate as a going concern, the Council relies on receiving sufficient cash to pay for the services it provides to ratepayers. In that regard, the Council relies heavily on bank loans and the money it collects from ratepayers. The Council needs to urgently focus on reducing risks to both these sources of funding.

The Council needs to take steps to actively manage its bank loan agreements. At present, the Council is potentially in breach of a number of obligations in its various loan agreements which results in some uncertainty. Those potential breaches may give the lenders the right to demand repayment of these loans.

The Council also needs to take steps to manage its rates revenue. The main issues are:

- ensuring that an LTP is adopted so that the Council can set rates for 2012/13;
- dealing with the legal issues associated with targeted rates that date back a number of years; and
- taking appropriate steps to ensure that rates are properly set and invoiced so that the group of ratepayers currently refusing to pay rates pay them.

All of the above matters are critical to the Council remaining financially viable and continuing to operate as a going concern.

We expect the Council to satisfy itself that it can and will take the necessary steps to remain financially viable and continue to operate. We also expect the Council to make the necessary changes to its 2011 annual report to make clear its assessment of financial viability.

Ministerial Review Team

It will be important that the Council considers any findings and recommendations of the Ministerial Review Team and determines whether they affect the 2011 annual report, including the need for any further disclosures.

Making written representations to us

You should be aware that we seek written representations about a number of matters from the Council as part of our audit. Based on the current state of affairs, we are required to seek some further specific and separate written representations about the Council's going-concern status. We will work through these matters with you before the representation letters are finalised and signed. We expect these letters to be co-signed by the Mayor, on behalf of the elected members, and the Chief Executive Officer.

The outstanding issues related to the 2011 audit

In addition to the matters above, there are a number of outstanding issues that we are working through with Council management and staff.

Decisions relating to Baylys Beach sewage disposal costs

We are aware that some property owners at Baylys Beach were not invoiced for the costs of sewage disposal from when the service began in 2007 until 30 June 2011, and that the Council decided not to invoice property owners for these backdated charges. We understand that charging for this service began from 1 July 2011.

We are unclear about the decision-making processes between 2007 and 2011 for not charging the relevant property owners for sewage disposal at Baylys Beach. We are seeking further information about how those decisions were made and by whom.

Underlying records relating to reserves

The Council has reserves relating to funds vested in the Council by the Mangawhai Harbour Board. Further, we would expect the Council to set up reserves for targeted rates to be able to demonstrate that those rates are used appropriately. We are aware that there have been public allegations about funds being used for purposes other than the specific purpose they were collected for.

We need to work through these matters to determine whether appropriate systems and processes are in place and operating effectively to properly account for all Council funds and targeted rates. We also need to work through the adequacy of the disclosure in the financial statements about these matters.

Valuation of infrastructure assets

We need to follow up on an apparent contradiction that relates to the carrying value of infrastructure assets. An independent review of the Council's 2010 roading infrastructure valuation highlighted some issues in the valuation methodology. Recently, the same reviewer has advised the Council that current carrying values are materially correct. We need to better understand the basis for this advice.

Changes to the financial statements

We expect some changes to be made to the financial statements. One of the contingent liability amounts needs to be updated in note 6. The footnote about a significant reclassification in note 13 needs to explain why the reclassification has been made, and a further related-party transaction disclosure needs to be added to note 19.

We also note that other changes may be required as a result of the decisions the Council still needs to make and other matters arising from the audit.

The nature of our audit report at present

We attach to this letter the current draft audit report based on the audit work we have carried out so far. The nature of the audit report that we ultimately issue will depend on:

- any changes made to the draft 2011 annual report, including changes that may be made as a result of the financial viability assessment, and the Council's consideration of the report of the Ministerial Review Team;
- whether the Council provides us with all of the written representations we require; and
- any other events that occur before the audit report is signed that need to be taken into account.

You will see that the opinion section of the draft audit report contains four paragraphs under separate sub-headings that draw attention to particular matters in the draft 2011 financial statements. We are satisfied that the draft financial statements adequately explain each of the matters. Nevertheless, in our view, these matters are of such significance that we need to draw readers' attention to them.

Legal issues associated with targeted rates

The legality of transactions is important for determining whether or not the transactions have been appropriately accounted for in the financial statements. The draft financial statements recognise revenue from several different targeted rates that the Council has acknowledged lacked proper statutory authority, given errors in the way they were set. The financial statements also acknowledge a significant contingent liability that would crystallise if any legal challenge results in rates having to be repaid to ratepayers. Given the uncertainty about this revenue and the size of the possible liability, we intend to draw attention to the issue in our opinion.

Restatement of comparative information relating to the Mangawhai Community Wastewater Scheme

The draft 2011 financial statements contain some large adjustments to past years' financial information relating to the Mangawhai Community Wastewater Scheme. These adjustments were necessary to restate information presented in past years' financial statements. We intend to draw attention to these adjustments because of their size.

Auditor-General's Inquiry Into management of the Mangawhai Community Wastewater Scheme

After a request from the Council, the Auditor-General agreed to carry out an inquiry into many aspects of the Council's management of the Mangawhai Community Wastewater Scheme. We intend to draw attention to the inquiry, which is still in progress, because of the significance of the Scheme to the community.

Significant delay to adoption of the annual report

Ratepayers and other users of the annual report should have received it more than nine months ago. Although the Council has disclosed the delay to adopting the annual report in note 29, we intend to draw attention to it. We see the delay as a particularly significant matter, particularly given the issues facing the Council.

Concluding comments

We will continue to work with management and staff of Kaipara District Council and do all that we can so that the Council is in a position to adopt the 2011 annual report on 29 August 2012. I look forward to receiving the annual report and representation letters, which incorporate any changes necessary to reflect the Council's consideration of the matters set out in this letter. When the Council has adopted the 2011 annual report, I will be in a position to issue our audit report.

Yours sincerely



Karen MacKenzie
Director

This draft audit report needs to be read in conjunction with the letter of 13 August 2012 from the auditor to the Mayor and Councillors about the audit. The letter sets out some fundamental issues that the Council still needs to consider. The outcome of these issues is likely to affect the audit report.

This draft audit report currently draws attention to four known issues referred to in the draft 2011 annual report provided to the auditor on 5 July 2012.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Kaipara District Council's Annual report For the year ended 30 June 2011

The Auditor-General is the auditor of Kaipara District Council (the District Council). The Auditor-General has appointed me, Karen MacKenzie, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, groups of activity statements, and compliance with the other requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report of the District Council on her behalf.

We have audited:

- the financial statements of the District Council on pages [...] to [...], that comprise the Balance Sheet as at 30 June 2011, the Statement of Comprehensive Income, Statement of Changes in Public Equity, and Statement of Cash Flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information;
- the groups of activity statements of the District Council on pages [...] to [...]; and
- the District Council's compliance with the other requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report (other Schedule 10 information).

Opinion on the financial statements, groups of activity statements, and other Schedule 10 information

In our opinion:

- The financial statements of the District Council on pages [...] to [...]:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the District Council's financial position as at 30 June 2011; and

This draft audit report needs to be read in conjunction with the letter of 13 August 2012 from the auditor to the Mayor and Councillors about the audit. The letter sets out some fundamental issues that the Council still needs to consider. The outcome of these issues is likely to affect the audit report.

This draft audit report currently draws attention to four known issues referred to in the draft 2011 annual report provided to the auditor on 5 July 2012.

- . the financial performance and cash flows for the year ended on that date.
- The groups of activity statements of the District Council on pages [...] to [...]:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the District Council's levels of service for the year ended 30 June 2011, including:
 - . the levels of service as measured against the intended levels of service adopted in the long-term council community plan; and
 - . the reasons for any significant variances between the actual service and the expected service.
- The District Council has complied with the other requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report.

Legal issues associated with targeted rates

Without modifying our audit opinion, we draw your attention to the legal issues associated with the revenue from various targeted rates (see note 2 in the financial statements). As noted, these rates lacked proper statutory authority, given errors in the way they were set. We also draw your attention to the significant contingent liability which would crystallise should any legal challenge result in rates having to be repaid to ratepayers (see note 6 in the financial statements).

Restatement of comparative information relating to the Mangawhai Community Wastewater Scheme

We also draw your attention to the restatement of comparative information in note 27 that relates to the Mangawhai Community Wastewater Scheme. The adjustments relating to the Scheme affect the years ended 30 June 2008, 30 June 2009, and 30 June 2010, and are necessary to restate information previously presented.

Auditor-General's inquiry into management of the Mangawhai Community Wastewater Scheme

Further, we draw your attention to the fact that the Auditor-General, after a request from the Council, agreed to proceed with an inquiry into the Council's development, implementation, and oversight of the Mangawhai Community Wastewater Scheme as set out in note 6. That inquiry will also look at Council's planning and decision-making processes, and its financial management, monitoring and reporting for the Scheme.

This draft audit report needs to be read in conjunction with the letter of 13 August 2012 from the auditor to the Mayor and Councillors about the audit. The letter sets out some fundamental issues that the Council still needs to consider. The outcome of these issues is likely to affect the audit report.

This draft audit report currently draws attention to four known issues referred to in the draft 2011 annual report provided to the auditor on 5 July 2012.

Significant delay to adoption of the annual report

Finally, we draw your attention to the fact that the Council did not adopt its annual report within the statutory time frame as set out in note 29.

Our audit was completed on [date]. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Council and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements, groups of activity statements and other Schedule 10 information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, groups of activity statements and other Schedule 10 information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements, groups of activity statements and other Schedule 10 information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, groups of activity statements and other Schedule 10 information whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the District Council's financial statements, groups of activity statements and other Schedule 10 information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District Council's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Council;
- the adequacy of all disclosures in the financial statements and groups of activity statements;

This draft audit report needs to be read in conjunction with the letter of 13 August 2012 from the auditor to the Mayor and Councillors about the audit. The letter sets out some fundamental issues that the Council still needs to consider. The outcome of these issues is likely to affect the audit report.

This draft audit report currently draws attention to four known issues referred to in the draft 2011 annual report provided to the auditor on 5 July 2012.

- determining the appropriateness of the reported groups of activity statements within the Council's framework for reporting performance; and
- the overall presentation of the financial statements, groups of activity statements and other Schedule 10 information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, groups of activity statements and other Schedule 10 information. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Council

The Council is responsible for preparing:

- financial statements and groups of activity statements that:
 - comply with generally accepted accounting practice in New Zealand;
 - fairly reflect the District Council's financial position, financial performance and cash flows;
 - fairly reflect its service performance, including achievements compared to its forecast; and
- other information required by Schedule 10 of the Local Government Act 2002.

The Council is responsible for such internal control as it determines is necessary to enable the preparation of financial statements, groups of activity statements and other Schedule 10 information that are free from material misstatement, whether due to fraud or error.

The Council's responsibilities arise from the Local Government Act 2002.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements, groups of activity statements and compliance with the other Schedule 10 information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 99 of the Local Government Act 2002.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

This draft audit report needs to be read in conjunction with the letter of 13 August 2012 from the auditor to the Mayor and Councillors about the audit. The letter sets out some fundamental issues that the Council still needs to consider. The outcome of these issues is likely to affect the audit report.

This draft audit report currently draws attention to four known issues referred to in the draft 2011 annual report provided to the auditor on 5 July 2012.

The Auditor-General is carrying out an inquiry into the District Council's management of the Mangawhai Community Wastewater Scheme. Other than the inquiry, and this report, and in conducting the audit of the Long-Term Plan Statement of Proposal, we have no relationship with or interests in the District Council.

Karen MacKenzie
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

DRAFT

13 August 2012

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Dear Mayor and Councillors

AUDIT OF KAIPARA DISTRICT COUNCIL'S 2012-22 LONG-TERM PLAN

As you will be aware, Kaipara District Council's Long-Term Plan Statement of Proposal (LTP SOP) for 2012-22 was adopted by the Council on 27 April 2012. Since then, the Council has consulted the community about the proposals in the LTP SOP, which has resulted in some key changes being made to the final LTP for 2012-22 (the LTP). We received a draft of the LTP on 31 July 2012 and have started our audit of it.

This letter sets out a number of outstanding issues identified during our audit so far, and the expected time frames for completing the audit. There may be further issues identified as we complete our audit. We have set out in a separate letter (also dated 13 August 2012) the status of our audit of Kaipara District Council's 2011 annual report. Some of the issues – in particular, financial viability – that affect our audit of the 2011 annual report also affect our audit of the LTP.

There is a lot of work still to do for the Council to be in a position to adopt the LTP on 29 August 2012 as planned. We will continue to work with management and staff, and do all that we can to enable the Council to meet this time frame.

Outstanding issues

The main issues requiring your attention as elected members

We have set out the main issues requiring your attention under three broad headings, which collectively comprise the key building blocks of any local authority's LTP:

- financial strategy, including whether the LTP is financially prudent;
- underlying information; and
- assumptions.

Financial strategy, including whether the LTP is financially prudent

We are considering commenting on the Council's financial strategy in our audit report.

Section 101A of the Local Government Act 2002 (the Act) requires the Council to set out its financial strategy as reflected within the financial forecasts in the LTP. Under section 101 of the Act, the Council also needs to be satisfied that its LTP is financially prudent.

Although the Council has set out its financial strategy, in our view, it is an open question whether or not the LTP is financially prudent. The Council is facing a complex and challenging set of factors, which combine to threaten the financial prudence of the LTP, including:

- high Council debt of \$87 million at the start of the 10-year period of the LTP;
- the Council's reliance on the continued support of its bankers, with at least one possible breach of its banking covenants;
- the Council's reliance on a significant level of revenue from development contributions during the 10-year period of the LTP;
- the Council's forecast cash flows within the LTP depending on timely collection of rates;
- the Council's reliance on not being required to repay any rates that may be found to have been invalidly set before the 2012-22 LTP; and
- the Council's series of reviews of underlying information to the LTP, including asset management plans, that may lead to increased renewals and/or other capital expenditure above that forecast in the LTP (see below).

In our view, the Council needs to ensure that its financial strategy within the LTP is appropriate in light of these factors, and that the LTP is financially prudent.

Underlying Information

We are considering drawing attention in our audit report to the Council's stated intention of carrying out a number of reviews which could lead to the Council amending its LTP before 2015.

The quality of forecast information within the LTP depends heavily on the quality of underlying information available to the Council, such as asset management plans. The Council has acknowledged that it needs to make improvements in this area.

On page 21 of Volume 1 of the LTP, the Council has noted that it has a number of initiatives planned or under way that may lead to an amendment to the LTP before 2015. These initiatives include, among other things, a review of the activities delivered and levels of service, the way in which services are delivered, and a review of asset management plans. These reviews have the potential to significantly change the underlying information upon which the LTP is based.

In our view, the Council needs to tell the community about those initiatives because they have the potential to change the levels of service received by the community, and/or the forecast costs of delivering those services. It also means that this LTP, setting out the Council's current intentions, could be subject to significant change in a relatively short time frame. We expect to see the Council's intentions more prominently disclosed within the LTP.

Assumptions

We are considering drawing attention in our audit report to the importance of certain assumptions about the financial viability of the Council, and the overall effect of these assumptions on the LTP.

The quality of forecast information within the LTP relies heavily on the assumptions made by the Council, and these assumptions are required to be reasonable and supportable.

The assumptions used to prepare the LTP are the same as those used to prepare the LTP SOP, which was adopted by the Council on 27 April 2012. However, the circumstances that the Council now faces have changed significantly.

The Council needs to be satisfied that the assumptions that underpin the LTP are reasonable and supportable, and that areas of significant uncertainty are appropriately disclosed within the LTP. This will

enable the community and other interested stakeholders to gain a proper appreciation of the risks facing the Council during the period of the LTP.

In our view, there are a number of assumptions that may be less certain than previously presented and that need reconfirmation by the Council, including assumptions about:

- growth;
- the level of development contribution revenue; and
- lower interest rates on debt, based on a presumption of being able to refinance debt with the Local Government Funding Agency.

Also, in our view, the Council needs to enhance its disclosure about the risks associated with its assumptions, including demonstrating the sensitivity of the assumptions to alternative scenarios, as required by schedule 10, clause 17 of the Act. This should help the community and other interested stakeholders assess the level of uncertainty within the forecast financial information in the LTP.

Other issues

In addition to the issues set out above, there are a number of other issues that we have been discussing with management and staff, including:

- legislative non-compliance;
- disclosure of information within the LTP;
- calculations in the financial model; and
- performance information.

Legislative non-compliance

We are considering commenting on the Council's legislative non-compliance in our audit report.

We are aware that the Council's LTP SOP attracted a high number of submissions from the public and that, although not unexpected, this put a lot of pressure on Council's processes. Not surprisingly, Council staff have found it difficult despite their best efforts to follow the detailed procedures set out in the Act in every respect. As a result, there are some shortcomings in the procedures followed by Council (for example, acknowledgement of submissions received).

The Council is required to adopt its LTP before the start of 2012/13 (that is, on or before 30 June 2012). Clearly, it has been unable to do so.

Also, as noted above, the Council's draft LTP is quite different to the Council's LTP SOP, which the Council adopted on 27 April 2012 for the purpose of consulting with the community. We need to consider the Council's legal advice on this matter to ensure that the Council has not inadvertently breached the requirements of the Act by changing the proposals that they have consulted their communities on.

Disclosure of information within the LTP

We have concerns, based on our audit work to date, about the democracy activity within the LTP. The activity appears to be unduly burdened with debt, and we need to better understand how that debt is being funded in accordance with the Council's Revenue and Financing Policy.

We also have concerns, based on our audit work to date, about how well the Council has been accounting for reserves in relation to activities funded or partially funded by targeted rates, and how this is reflected within the LTP. The current information appears substantially incomplete.

Calculations in the financial model

We have identified a number of apparent anomalies in the financial information presented in the LTP (for example, flood protection rates are exactly the same for seven of the 10 years in the LTP). This has given rise to questions about some of the calculations in the financial model.

Performance information

We have concerns about the disclosures within the LTP about the levels of service that the Council plans to provide during the next 10 years when there have been substantial expenditure reductions in renewals (for example, roading).

Expected timetable for completing the audit

Our understanding of the expected timetable for completing the LTP is:

- Completion of audit fieldwork 17 August 2012
- Final LTP available for the Council 20 August 2012
- Council to approve LTP 29 August 2012
- Audit report to be signed 29 August 2012
- Council to adopt LTP 29 August 2012

Concluding comments

Achievement of these dates depends heavily on you, as the elected members, and Council management, and staff being able to devote sufficient time to resolve the key outstanding issues affecting the LTP, including those set out in this letter.

The Council needs to decide how it wishes to respond to the matters raised in this letter. We know how important it is for the Council to adopt the LTP and set rates for 2012/13 by 29 August 2012. We will continue to work with management and staff, and do all that we can so that the Council is in a position to approve the LTP on 29 August 2012. When the Council has approved the LTP, I will then be in a position to issue our audit report. This will enable the Council to adopt the LTP, including the audit report.

Yours sincerely



Karen MacKenzie
Director