Controller and Auditor-General
Tumuaki o te Mana Arotake

B.29[11b]

Parliamentary paper

Local government: Results of the 2009/10 audits

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Local government: Results of the 2009/10 audits

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Auditor-General's overview

As I finalise this report, Parliament's immediate focus is on the safety and well-being of people in Christchurch. The tragedy of the 22 February earthquake has affected us all. Our thoughts are with those who are affected.

The recent earthquake follows several major events, including the Canterbury earthquake of 4 September, the blizzard that affected Southland's farming community in spring, and the tragedy at the Pike River coal mine on 19 November. In December, I wrote to all local authority chief executives and mayors. In my letter, I acknowledged the important role of local authority leadership and service to people during these times. This role continues as communities recover.

In a change from previous years, this report on the 2009/10 audits of the local government sector has two sections. Section A includes the full results of the 2009/10 audits of local authorities' financial statements. For the first time, we have outlined our observations on the financial performance and position arising out of local authorities' 2009/10 audited financial statements. I intend such observations to be an important and developing part of my future reporting to Parliament.

Section B contains articles that were attached to my December letter to local authority chief executives and mayors. The letter informed them of other matters my Office was involved in during 2010.

During the past year, my Office took part in important first steps in the reform of Auckland's local government. In October, I signed the first audit report for the new Auckland Council. It was pleasing to be able to assure the new, enlarged Auckland community that the Council's planning document was reasonable. We reported fully on the planning document for Auckland Council in a separate report to Parliament. We will continue to be closely involved in Auckland Council's planning and accountability cycle. Soon, we plan to report separately on the results of the dissolution audits of the former Auckland councils.

We are now working with our audit service providers and local authorities as they prepare their 2012-22 long-term plans. In this third round of audited long-term plans, I expect that improved efficiency from both my auditors and local authorities will make us all better prepared than in the previous rounds.

During the coming year, I will continue to liaise closely with the sector to keep aware of challenges it faces. Where needed, I will work with the sector to meet those challenges.

Lyn Provost
Controller and Auditor-General

29 March 2011

Part 1
Introduction

1.1 In a change from previous years' reports, this report on the 2009/10 audits of the local government sector is in two sections:

- Section A reports on the full results of the 2009/10 annual reporting round of local authorities; and
- Section B contains articles written in December to directly inform all local authority chief executives and mayors of what the Office was working on during 2010, and of the findings.

1.2 In this Part, we describe the content of Section A.

Timeliness of annual reporting

1.3 As we did in previous reports on the results of local government audits, we comment on important aspects of annual reporting by local authorities. Overall, this year's results were disappointing. Local authorities' annual reporting was less timely for 2009/10 than for the previous year. We consider this trend to be of concern.

Financial trends in annual reports

1.4 For the first time, we have reported our observations on the financial performance and position that can be determined by referring to local authorities' audited financial statements. We have not gone beyond the information in those statements here because we believe they should be informative in their own right.

1.5 Because this is the first year that we have completed this analysis, our comments are descriptive. In future years, we expect to report more fully on trends.

1.6 Overall, we have observed that local authorities are generally in a sound financial position. However, some local authorities face challenging decisions about whether to keep providing the current levels of service to their communities.

1.7 On the whole, local authorities spent less on capital than they had budgeted for in the year ended 30 June 2010; about 78% of all capital expenditure planned by local authorities was actually spent. Local authorities' annual reports clearly conveyed that the need to save money was the reason for the underspending.

1.8 Because of the lower capital expenditure, local authorities did not borrow as much as they had budgeted for.

Reducing and managing greenhouse gas emissions

1.9 For the first time, we report on the extent to which local authorities measure, reduce, and offset greenhouse gas emissions.

1.10 We found that some local authorities lead by example in improving their communities' environmental well-being.

1.11 The effect of New Zealand's Emissions Trading Scheme is not yet apparent, but we will continue to monitor this and report where appropriate.

Non-standard audit reports

1.12 In addition to reporting our opinion, we have increased the use of explanatory paragraphs in our audit reporting. We see merit in drawing attention to significant matters particularly relevant to the information an entity provides.

1.13 This year, in the Central Otago District Council and Tararua District Council audit reports, we included explanatory paragraphs about the councils' performance information. These two local authorities received a qualified audit opinion about their performance frameworks in their 2009-19 long-term council community plans. The councils had reported performance information for the current year against an appropriately revised performance framework. We were pleased with the effort these local authorities made to improve. The audit reports for these two local authorities drew attention to the improvements they had made.

Part 2
Timeliness of annual reporting

2.1 In this Part, we set out:

- the statutory requirements for adopting and publicly releasing an annual report;
- when local authorities adopted their annual reports, and the reasons why some were late;
- when local authorities publicly released their annual reports; and
- when local authorities publicly released their summary annual reports.

Summary

2.2 The timeliness of annual reporting by local authorities was worse for 2009/10 than for the previous year. This year, seven local authorities did not meet the statutory deadline for adopting their audited annual report. When we reported last year, only one local authority had not met the statutory deadline for adopting its 2008/09 annual report. We consider this year's result to be of concern.

2.3 Many local authorities need to better plan how they will complete, adopt, and release their annual report within the statutory deadlines. This obligation is not new and is known to all local authorities. In 2008/09, all except one local authority demonstrated their ability to meet their statutory obligation.

2.4 It is important that local authorities recognise that accountability is not achieved until the audited information is made available to ratepayers. Five local authorities were not timely in making their annual reports publicly available after the reports were adopted.

2.5 Local authorities also need to improve the timeliness of making their summary annual reports available.

2.6 Many ratepayers rely on the more user-friendly summary document to provide information without having to read the full annual report. It is important that local authorities make their summary annual reports available without delay and inform their communities about how they have spent ratepayers' money.

Background

2.7 Local authorities' annual reports provide information that helps communities to assess the authorities' performance. For this process to be effective, the information must be comprehensive and timely.

2.8 Each year, we examine the timeliness of local authorities' annual reporting.

2.9 Under the Local Government Act 2002 (the Act), each local authority is required to:

- complete and adopt its annual report, containing audited financial statements and service performance information, within four months after the end of the financial year;[1]
- make its annual report publicly available within one month of adopting it; and
- make an audited summary of the annual report publicly available within one month of adopting the annual report.[2]

2.10 The local authority decides when the audited annual reports and summaries will be prepared and published, within the requirements of the Act.

2.11 We have considered the timeliness of annual reporting for 77 local authorities. This differs from previous years when we considered 85 local authorities. Because of the Auckland local government reform, we have not considered the former Auckland local authorities or the new Auckland Council. The former Auckland local authorities did not prepare annual reports for the year ended 30 June 2010 – instead, they will prepare 16-month reports for the period ended 31 October 2010. At the time of writing, the 16-month reports were not available. We have adjusted the previous-year information to exclude the Auckland councils.

Adoption of annual reports

2.12 The Act allows four months after the end of the financial year for local authorities to complete and adopt their annual report. More local authorities did not meet this statutory deadline than in 2008/09.

2.13 Figure 1 shows the dates when the audits of local authorities were completed, which gives an indication of when local authorities were able to adopt their annual reports. It shows that, for 2009/10, 70 local authorities (91%) were able to adopt their annual report by the statutory deadline of 1 November 2010.

1 If the date the audit of a public entity's financial statements must be completed by falls on a non-working day, then the Interpretation Act 1999 requires that the statutory deadline should be read as the next working day. In 2009/10, the last possible date for completing and adopting the annual report was Monday 1 November 2010.

2 The actual timing required of any local authority is determined by when it completes and adopts its annual report. If the date the annual report summary is to be made publicly available by falls on a non-working day, then the Interpretation Act 1999 requires that the statutory deadline should be read as the next working day.

Figure 1
When local authority audits were completed, for 2009/10 and 2008/09

Period in which the audit was completed	Number completed during this period, 2009/10	Number completed during this period, 2008/09
Within 2 months after the end of the financial year	2	2
Between 2 and 3 months after end of the financial year	22	11
Between 3 and 4 months after the end of the financial year	46	63
Subtotal: Number meeting statutory deadline	*70*	*76*
Between 4 and 5 months after the end of the financial year	4	1
More than 5 months after the end of the financial year	3	0
Total	**77**	**77**

2.14 For 2009/10, seven local authorities (9%) breached the statutory deadline. This compares with one local authority for 2008/09.

2.15 The seven local authorities that breached the statutory deadline for 2009/10 did not breach the statutory deadline for 2008/09. This shows that they were able to meet their obligations in the past.

2.16 Unfortunately, in one instance, the audit team and the local authority were jointly responsible for the late finalisation of a local authority's audit.

2.17 As at 30 November 2010, five months after the end of the financial year, there were three outstanding annual reports for 2009/10. These annual reports were completed in December 2010. In comparison, for 2008/09, there were no outstanding annual reports for the same period. We consider this to be an unsatisfactory trend.

2.18 The reasons local authorities disclosed in their annual report for not meeting their statutory deadlines included:

- the local authority was waiting for information from subsidiaries or associates – where the audits of these entities had been delayed and the entities were significant to the local authority, this delayed finalising the local authority's annual report;

- the scheduling of meetings after a council election – one local authority did not have a meeting scheduled to meet its statutory deadline; and
- delays by local authorities in obtaining information to support the information required to be reported in the statement of service performance.

Public release of annual reports

2.19 We also looked at when local authorities released their annual report to the community. The Act allows one calendar month for public release from when a local authority adopts its annual report. Figure 2 shows the performance of local authorities in meeting this deadline.

Figure 2
When local authorities released their annual report, for 2009/10 and 2008/09

Number of days after adopting annual report	Number released 2009/10	Number released 2008/09
0-5 days	23	32
6-10 days	6	10
11-20 days	21	10
21 days to one month	22	24
Subtotal: Number meeting statutory deadline	*72*	*76*
One month to 45 days	5	1
Total	**77**	**77**

2.20 Figure 2 shows a fall in the number of local authorities meeting the statutory deadline. The number of local authorities publishing their annual report within 10 days of its adoption also fell from 55% for 2008/09 to 36% for 2009/10.

2.21 Most local authorities make their annual report available to the public on their website. In our view, if the annual report is published on a website, then local authorities should be able to do this within a few days of adopting their report. We expect the whole sector to be able to meet this deadline.

Public release of summary annual reports

2.22 We also reviewed the timing of the release of audited summaries of annual reports. The Act requires both the audited annual report and an audited summary to be released within one month of the annual report being adopted. Releasing an audited summary is important for the accountability of local authorities. It is the most accessible information for most readers, and the easiest document to circulate and make widely available.

2.23 As Figure 3 shows, the number of local authorities making summaries of annual reports available within the statutory deadline increased slightly between 2008/09 and 2009/10. However, the number of local authorities releasing their summary annual report within 10 days of adopting their annual report fell to 11 (from 24 in 2008/09). That is, only 14% of local authorities released their summary annual reports within 10 days, compared with 31% in the previous year.

Figure 3
When local authorities released their audited summary annual report, for 2009/10 and 2008/09

Number of days after adopting annual report	Number released 2009/10	Number released 2008/09
0-5 days	6	18
6-10 days	5	6
11-20 days	22	16
21 days to one month	38	26
Subtotal: Number meeting statutory deadline	*71*	*66*
One month to 40 days	3	10
41-50 days	0	0
51-60 days	1	0
Not yet issued at time of writing this report*	2	1
Total	**77**	**77**

* This report considered all information as at 31 January 2011. The 2008/09 information is at 31 March 2010.

2.24 Six local authorities did not provide their communities with audited summaries of their annual reports within one month of adopting their annual report, compared with 11 for 2008/09. We encourage local authorities to continue to work towards meeting the deadline and their statutory obligation.

2.25 One local authority, Far North District Council, did not comply with the requirement to provide an audited summary annual report to its communities within the statutory deadline in any of the last four years. At the time of writing, Far North District Council had yet to publish its 2009/10 summary annual report.

2.26 As with publishing the annual report, producing a summary annual report is a known obligation. We emphasise the need for local authorities to project manage the production, audit, and publication of their annual report and their annual report summary.

2.27 The project management for an annual report and summary annual report should allow for elections, because they are recurring and known events.

2.28 It is positive to see more local authorities meeting the statutory deadline for releasing their summary annual reports. However, the fall in efficiency is disappointing. Annual reports and summaries should be published simultaneously or near simultaneously. This can be achieved through sound planning. We encourage this approach as best practice and see no reason it cannot be standard practice for the whole sector.

Part 3
Financial trends in the annual reports of local authorities

3.1 In this Part, we outline our observations on the financial trends arising out of local authorities' audited financial statements for the year ended 30 June 2010. We set out why we are reporting this information and the information that we considered, before discussing:

- operating revenue;
- operating expenditure;
- capital expenditure;
- borrowings;
- indicators of financial sustainability; and
- group financial information.

Summary

3.2 Local authorities[3] collected $5.5 billion in operating revenue and spent $5.0 billion on operating expenditure for the year ended 30 June 2010. They spent a further $1.9 billion on capital expenditure.

3.3 The revenue collected was in line with that budgeted in local authorities' long-term plans. Operating and capital expenditure was different from that intended.

3.4 Operating expenditure was 3% higher than budgeted. Common reasons for the variance were higher-than-budgeted depreciation costs and/or losses incurred because of the disposal or impairment of assets.

3.5 Capital expenditure was less than anticipated, with only 78% of local authorities' budgeted expenditure for the year being spent. Many local authorities deferred their capital work. This could indicate the sector's inability to carry out its capital expenditure programme (for example, because of cost or the unavailability of suitable contracting staff) or that the sector is holding back on capital expenditure during the recessionary period.

3.6 As at 30 June 2010, local authorities had borrowings of $3.9 billion. The level of borrowings incurred by local authorities was $673 million higher than the previous year. This shows a greater reliance by local authorities on using external debt to fund their activities.

3.7 The local government sector comprises councils and entities controlled by councils. Some local authorities have large group structures, and some council-controlled organisations (CCOs) operate core services on behalf of local authority shareholders. Our financial analysis largely considers parent-only or council-only financial information. Readers should note that some CCOs have significant asset

3 For the reasons noted in paragraph 2.11, we have not considered the former Auckland local authorities or the new Auckland Council in this analysis.

holdings and generate significant revenue and expenditure. We briefly discuss some aspects of CCO financial information in paragraphs 3.56 to 3.61.

Why are we reporting this information?

3.8 From now on, we intend to report each year on the financial trends throughout the sector, and our analysis of them. This information will provide readers with a financial overview of the local authority sector and the main trends.

3.9 We extracted the information that we have reported in this Part from the annual reports of local authorities. This information is publicly available to Parliament and the community. We recognise that this may limit our observations. However, it may also help identify how local authorities' external reporting could improve.

3.10 Because this is the first year that we have completed this analysis for the local authority sector, our comments and observations are descriptive. We expect to report more fully on trends in future years.

The information that we considered

3.11 We collected all the information used in the analysis from the audited financial information in annual reports for the year ended 30 June 2010 (2009/10). We have mainly considered results and forecast results for 2009/10, and the previous year's comparative figures (that is, for 2008/09).

3.12 For the reasons noted in paragraph 2.11, we have not considered the former Auckland local authorities or the new Auckland Council in this analysis.

3.13 We have tried to be consistent in compiling and categorising the financial information. Because local authorities disclose information in different ways, this was not always possible. However, we do not expect any inconsistencies in the way we have compiled the data to materially affect the information in this report.

Operating revenue

3.14 In 2009/10, the local government sector collected $5.5 billion in operating revenue. This was in line with budgeted revenue and is a 7% increase on the previous year. Most of this increase was through rates.

3.15 Local authorities collected $2.9 billion in rates revenue, an increase of $167.5 million or 6% on the previous year. This increase was largely in line with budget (actual rates revenue was 1% or $19.5 million more than budget).

3.16 The increase in rates revenue is greater than the increase in the consumer price index. The reason for this varies from council to council, but includes increased:

- costs in maintaining existing services;
- provision of services because of community expectations or enhancement of amenities to attract investment; and/or
- costs for upgrading infrastructure.

3.17 The budget variance also incorporates the effect of rates collected on new properties, which could not be built into budgets at the time of their preparation.

3.18 Other sources of local authority revenue were income from user fees and charges, government subsidies (for example, revenue from the New Zealand Transport Agency (NZTA)), dividend income, development contributions, and the recognition of assets vested in a local authority.

3.19 Development contributions (2009/10: $93 million) and vested assets (2009/10: $206 million) were respectively 5% and 9% less than the previous year. We expected this, given that many local authorities are experiencing less growth because of the recessionary period.

3.20 Those local authorities that have experienced a decrease in development contribution revenue may still be committed to carrying out their capital expenditure programme. They may need to find other ways to fund this capital. Therefore, some local authorities are likely to seek other funding avenues, such as increasing their debt.

Operating expenditure

3.21 Total operating expenditure for local authorities in 2009/10 was $5.0 billion. This represents a growth of 3% from the previous year and is 3% higher than budget.

3.22 Many reasons exist for the increased expenditure and reflect those noted in paragraph 3.16. We have considered some of the more significant reasons below.

3.23 Wellington City Council increased its provision for settling claims arising from the Weathertight Homes Resolution Services Act 2006 and related civil proceedings by $14 million. The provision relates to potential net settlement costs of known claims at balance date. It does not allow for claims yet to be lodged.[4] The unbudgeted increase was because of a revised actuarial assessment of the previous provision to take account of more up-to-date information about settlement costs and the percentage share of costs that the Council is being found liable for. The increased provision also includes, for the first time, provision for the legal costs associated with settling the claims. For more information about

4 Wellington City Council continues to acknowledge that it has exposures to future claims. Because of ongoing uncertainty, this part of the leaky home liability has been treated as an unquantified contingent liability.

the costs that local authorities face to meet leaky building claims, see Article 8 in Section 2.

3.24 Waitomo District Council wrote off its investment of $8.4 million in the wholly owned subsidiary Inframax Construction Limited (Inframax) because of the financial difficulties that Inframax faced. The write-off was not budgeted. The write-off was made as at 30 June 2010. Inframax was in serious financial difficulties and in breach of its borrowing covenants. As a result, Inframax included in its financial statements disclosures about the risks to its ability to operate on an ongoing basis. The audit report for Inframax and Waitomo District Council also drew readers' attention to the uncertainties with the going concern assumption (see also paragraph 6.38).

3.25 The variances for these two local authorities contribute 18% of the expenditure movement against budget. The remaining variance was spread across several local authorities. Common reasons for the increase in expenditure against budget include:

- higher-than-budgeted depreciation costs arising from revalued and vested assets; and
- significant losses because of the disposal of assets or impairment of assets. These movements were not foreseen at the time of setting the budgets. The losses or the change in value are a result of local authorities collecting better information on their assets, both in terms of replacement costs and the condition of the assets.

3.26 The total depreciation expense for local authorities for 2009/10 was $1.1 billion or 21% of operating expenditure.

Capital expenditure

3.27 Local authorities spent $1.9 billion on capital work in 2009/10. This was consistent with 2008/09 but only 78% of the $2.4 billion budgeted.

3.28 District councils spent only 73% of the $1.4 billion capital expenditure budgeted. City councils spent 84% of the $1.0 billion capital expenditure budgeted.

3.29 Many of the annual reports do not disclose effectively why only 78% of budgets was spent. It may be that efficiencies were made as projects were completed. However, it also appeared that many local authorities either deferred or reprioritised their planned capital expenditure.

3.30 Capital work can be deferred for a number of reasons, including cost saving, availability of suitable contracting staff, the recessionary environment affecting development, or other delays.

3.31 Some local authorities disclosed in their annual report that they had not completed some of their forecast capital expenditure programme for roading because they had received a different level of funding from the NZTA than anticipated.

3.32 Land transport activities delivered by local authorities are part funded from the national land transport fund (administered by the NZTA). In 2009, the Government Policy Statement for land transport was revised to identify roads of national significance. The purpose of listing those projects as nationally significant is to ensure that the NZTA takes them into account when it develops the national land transport programme. As a result, the national land transport fund was reprioritised to reflect the list.

3.33 Because of this, as well as the deferral of some roading works, some local authorities have had changes made to the level of funding they had received or were expecting to receive when they set their budgets. This has resulted in some local authorities not proceeding with planned roading works, further deferring capital works, or reprioritising the services delivered. We know of concerns within the sector that these decisions may affect the level of services that some communities receive, particularly in the long term.

3.34 Seven roads of national significance have been identified to date. The Christchurch motorway project is the only South Island project identified. We considered the effect on South Island local authorities and their communities. The 19 South Island local authorities received $19 million less in funding than they had budgeted (or 83% of budgeted revenue) and $37 million less than the previous year (a 28% decrease in revenue). Other local authorities may have received more funding than budgeted.

Borrowings

3.35 Local authorities use debt mainly to fund the acquisition of long-life assets. This helps to provide equity between different generations of ratepayers. Generally, local authorities should not use debt to fund operational expenditure.

3.36 Local authorities had borrowings of $3.9 billion as at 30 June 2010, compared to total assets of $79.0 billion. This level of debt must be matched with affordability considerations and community expectations about traditional rating levels.

3.37 As at 30 June 2010, the district councils had borrowings of $1.9 billion, as did city councils. This was less than that forecast by $347 million for district councils and $136 million for city councils.

3.38 The level of borrowings held by local authorities was $673 million higher than the previous year. District councils had an increase of $316 million compared with the previous year. City councils had a similar increase ($315 million) compared with the previous year.

3.39 The extent of debt use is closely aligned with the affordability of rates across communities and the level a community is prepared to pay. Below, we look at some of the indicators of what councils and communities are prepared to consider as prudent debt levels.

Indicators of financial sustainability

Debt to total revenue

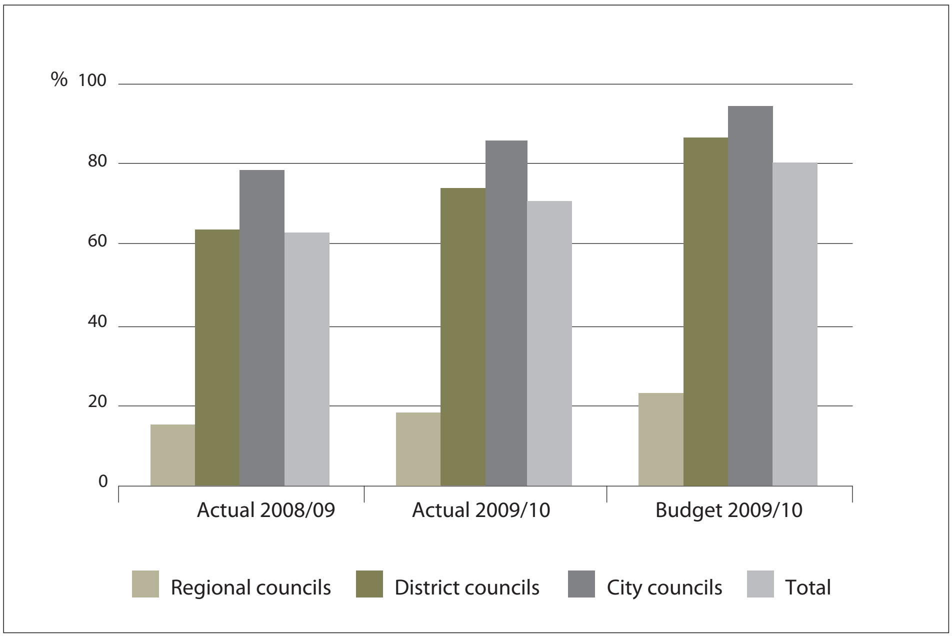
3.40 The percentage of debt to total revenue compares borrowings (current and non-current) at year end to total annual revenue. The higher the percentage, the less able the local authority may be to cover the borrowings from the revenue it generates.

3.41 Debt to total revenue increased significantly during 2009/10, from 63% to 71%.

3.42 Figure 4 shows that city councils had higher debt to total revenue percentages than district councils. Regional councils had low debt to total revenue percentages. As a subsector, regional councils do not have such significant borrowings.

3.43 Regional councils have significantly lower asset bases than other local authorities. In some cases, regional councils also have significant additional sources of income from their profit-making subsidiaries. The funding provided by this income may be used as an alternative to borrowing and rates.

Figure 4
Debt to total operating revenue



3.44 The increased percentage against previous years reflects the increase in debt held by local authorities, as noted above.

3.45 The highest debt to total revenue percentages for individual local authorities were 200% and 180%. Both of these were held by high-growth local authorities, where the intended funding mechanism for debt repayment is generally not rates but development contributions. Although these indicators are high, they are inside the financial policy limits of the respective local authorities. The indicators also reflect that these local authorities rely on future growth and development contributions to continue to meet their debt commitments. As noted in paragraphs 3.19 and 3.20, current conditions mean that budgeted contributions are at risk, with the consequence that alternative funding sources will need to be identified to meet debt commitments. This might mean further rates increases.

Liquidity

3.46 The liquidity ratio for the sector overall was 0.89:1 at 30 June 2010. This is consistent with the previous year. The liquidity ratio compares current assets to current liabilities. It measures whether a council has enough resources to pay what it owes during the next 12 months.

3.47 The highest liquidity ratio was 11.81:1 and the lowest was 0.16:1.

3.48 District and city councils often had low liquidity ratios. This reflects the loan debt profiles of these councils. Much loan debt is recorded as current because of how local authorities structure their loan renewals and their use of cash reserves to fund capital expenditure before drawing debt.

3.49 A ratio of less than 1.0:1 indicates that an organisation may have difficulty in meeting its liabilities as they fall due. We will continue to monitor this ratio for local authorities to determine any trends. The liquidity ratios achieved by local authorities are in line with those budgeted or anticipated in the local authorities' 10-year plans, reflecting that this is typical of how the local authority sector structures its debt. Most local authorities anticipate few problems in rolling over or renewing their loans.

Capital expenditure/depreciation

3.50 The capital expenditure to depreciation ratio compares the rate of capital expenditure on assets to depreciation. A ratio higher than 1.0:1 indicates that capital expenditure is higher than the depreciation rate and suggests a level of reinvestment that is at least maintaining the assets' performance capability, and even improving the nature of the service provided by the assets.

3.51 This is a long-term indicator, because capital expenditure can be deferred. Therefore, the indicator needs to be considered over time as well as in any one particular year. As noted in paragraph 3.29, many local authorities had deferred their capital expenditure.

3.52 The capital expenditure to depreciation ratio for all local authorities was 1.77:1. This is a decrease on 2008/09, when the ratio was 1.86:1.

3.53 The highest ratio was 5.68:1 for a local authority that had a large capital expenditure programme in 2009/10. This was due to a large one-off roading project. The lowest ratio was 0.62:1.

3.54 In future, we plan to collect information on investment in new capital projects compared with spending on existing assets through renewal or replacement. Currently, this information cannot be readily extracted from local authorities' audited financial statements.

3.55 The Local Government Act 2002 Amendment Act 2010 amended a requirement for local authorities to disclose in their long-term plan the amount of capital expenditure they have budgeted to meet additional demand, improve levels of service, and replace existing assets. It also requires a local authority to report its actual capital expenditure in its annual report. If combined with reasons for variations of actual expenditure over that budgeted, it should provide readers of the annual report with additional information about capital expenditure for the year.

Group financial information

3.56 We have also considered selected group financial information for city councils only. Group financial information largely includes both parent and CCO financial information.

3.57 Each local authority structures its business differently. Some, such as Christchurch City Council, have large group structures with several CCOs. Others, such as Napier City Council, have no CCOs. Some councils have CCOs that run core operations. Other CCOs are held as local authority investments. The decision to set up or invest in a CCO must be made by a local authority in consultation with its community.

3.58 We have not considered the financial results of the former Auckland councils in our analysis. Auckland's reorganisation will result in Auckland Council CCOs running major activities and services – including water supply, waste-water, and transport.

3.59 Total revenue collected by the 12 parent city councils that we considered was $2.2 billion. Their CCOs collected a further $653 million.

3.60 Parent city councils incurred expenditure of $1.9 billion. Their CCOs incurred a further $672 million.

3.61 Furthermore, city council CCOs held an additional $1.9 billion in assets and had $855 million of debt in addition to that held by their parent entities.

Next steps

3.62 We intend to continue to collect information from the audited annual reports of local authorities and report our observations on their financial performance and position. In future publications for Parliament, we expect to report more fully on the trends arising throughout the sector.

Part 4
Activities to reduce and manage greenhouse gas emissions

4.1 In this Part, we report on:

- the extent to which local authorities measured, reduced, and offset greenhouse gas emissions from their activities in the year ended 30 June 2010; and
- the extent to which local authorities have taken a broader approach and developed plans for reducing greenhouse gas emissions in their geographical areas, rather than just reducing emissions from their own activities.

4.2 We start with background information about the applicable requirements before discussing the New Zealand Emissions Trading Scheme (ETS), then set out the findings of our review of local authorities' activities. We end with a discussion of the next steps that local authorities might take and our intentions for monitoring and reporting on local authorities' activities to reduce and manage emissions.

4.3 We have included examples of local authorities' approaches to reducing emissions.

Summary

4.4 Of the 77 local authorities that we reviewed, about 25% were measuring, reducing, or offsetting their emissions. A further 10 local authorities had plans to do so or were carrying out related activities. Of those managing or reducing emissions, the larger city councils were most advanced. The Communities for Climate Protection New Zealand (CCP-NZ) programme, which provided a structured approach for reducing emissions from a local authority's corporate activities (corporate emissions) and district-wide emissions (community emissions) no longer operates. However, some local authorities were still using action plans introduced under that programme.

4.5 We expected that the ETS would provide an incentive for local authorities to begin measuring and reducing emissions, given fuel and electricity price increases. The ETS should encourage greater focus on waste minimisation when further costs based on waste disposed of at landfills are introduced. The effect of the ETS is not yet apparent, but we will continue to monitor this.

Background

4.6 The Local Government Act 2002 requires local authorities to take a sustainable approach and to promote environmental well-being. There is no explicit requirement for local authorities to measure or reduce the environmental effects of their activities. However, some councils have chosen to measure the greenhouse gas emissions from their activities and consider their waste management practices, and act to mitigate the environmental effects of those activities where it makes business sense to do so.

4.7 The three aspects to managing and mitigating greenhouse gas emissions are:

- measurement;
- reduction; and
- offsetting (for unavoidable emissions).

4.8 It is generally accepted that the best approach is to reduce emissions, rather than offset them.

4.9 Measuring emissions involves collecting baseline information on matters such as fuel use, mileage, electricity/gas consumption, and use of raw materials. This data can then be converted into carbon dioxide equivalents using conversion and emission factors available from agencies such as Landcare Research New Zealand Limited or the Ministry for the Environment.

4.10 Some entities in the public sector have used the Greenhouse Gas Protocol[5] to categorise and measure emissions. The Protocol categorises emissions as:

- Scope 1: direct greenhouse gas emissions from sources the entity owns or controls, such as boilers owned or controlled by the entity, and the entity's vehicle fleet (including private use if at the entity's expense);
- Scope 2: indirect emissions from energy that another party supplies to the entity; and
- Scope 3: other indirect greenhouse gas emissions by entities not owned or controlled by the public entity that occur as a result of the public entity's activities – these include emissions from staff use of public transport and by contractors.

4.11 Local authorities that had begun measuring and reporting were focusing on Scope 1 and Scope 2 emissions. Many entities also report on waste management practices and the volume of waste sent to landfill.

4.12 Those local authorities often report on their emission-reduction activities in their annual reports. This information is sometimes accompanied by some form of independent assurance.

Local authorities and emissions reduction activities

4.13 Several local authorities took part in the voluntary CCP-NZ programme, which ran from July 2004 until June 2009. The CCP-NZ programme aimed to help local authorities to reduce their own and their communities' greenhouse gas emissions.

5 See www.ghgprotocol.org.

4.14 The CCP-NZ programme provided a strategic framework for local authorities to use to reduce greenhouse gas emissions. The programme aimed to reduce emissions from each local authority's operations and influence reductions in their wider communities.

4.15 The CCP-NZ programme helped councils to identify measures to reduce greenhouse gas emissions, such as:

- saving energy and promoting sustainable energy;
- increasing sustainable transport;
- enhancing urban design;
- reducing emissions from landfills; and
- supporting the adoption of low-carbon technology.

4.16 After a local authority became a CCP-NZ participant, it would carry out five milestone tasks:

- conduct a greenhouse gas emissions inventory, analysis, and forecast;
- set emission-reduction goals;
- develop a local action plan to achieve these goals;
- implement and quantify the benefits of policies and measures in the action plan; and
- monitor progress towards the reduction goal.

4.17 The five milestones provided a framework that could accommodate district, city, and regional councils.

4.18 Although the programme ended in June 2009, some councils still use action plans developed under the programme.

New Zealand Emissions Trading Scheme

4.19 Aspects of the ETS are relevant to local authorities. As well as price increases for fuel and energy, some local authorities and their council-controlled organisations will be participants in the scheme because of forestry interests or their operation of landfills.

4.20 We intend to assess whether the ETS will lead to greater efforts by local authorities to measure and reduce greenhouse gas emissions and to focus more on waste minimisation practices to mitigate cost increases arising from the ETS.

Our review of local authorities

4.21 As part of the 2009/10 audits of local authorities, we asked our auditors to discuss with each local authority whether it was measuring, reducing, or offsetting greenhouse gas emissions from its activities and for details of what it was doing. We report the results of these activities below.

4.22 For the reasons noted in paragraph 2.11, we considered data for 77 local authorities but not the former local authorities in Auckland or the new Auckland Council.

How many local authorities are measuring greenhouse gas emissions?

4.23 For the year ended 30 June 2010, of the 77 local authorities:

- 18 local authorities were actively measuring greenhouse gas emissions;
- five local authorities that had previously measured emissions were no longer doing so;
- 13 local authorities were not measuring emissions but planned to start, or were taking some related steps; and
- 41 local authorities had done nothing about emissions and had no plans to.

4.24 Of the 18 local authorities measuring emissions, six were city councils, four were regional councils, and eight were district councils. Several of the active local authorities had taken part in the CCP-NZ programme. Some had reached the third milestone (see paragraph 4.16) of the programme by developing action plans for corporate and community emissions.

4.25 The five councils that had stopped measuring their emissions did so when the CCP-NZ programme ended and funding was withdrawn.

What greenhouse gas generating activities are councils measuring?

4.26 Some of the local authorities that measure emissions focus on their corporate activities and measure emissions from fuel used in local authority vehicles and from electricity and gas consumption in council buildings and facilities in the district. Others take a broader approach and also measure emissions from council-provided services such as water and wastewater treatment (pumping stations and treatment plants) and lighting (street lights, park lights, and traffic lights), as well as air travel and how staff travel to and from work.

4.27 The more advanced local authorities consider emissions by businesses and residents of their districts as well as their own activities.

4.28 Local authorities that were taking initial steps to reduce emissions focused on their vehicle fleets (for example, car size, fuel efficiency) and energy use.

Planning, strategy, and policy

4.29 The approach of the CCP-NZ programme was for local authorities to prepare action plans to measure and reduce their corporate emissions and for community emissions.

4.30 We asked local authorities whether they planned to measure and reduce greenhouse gas emissions – 28 councils had a plan or a draft plan.

4.31 Some plans were focused on reducing emissions from the local authority's activities, and some had a wider focus on reducing emissions within the district. We describe some of the plans in paragraphs 4.32 to 4.40.

4.32 **Southland District Council** joined the CCP-NZ programme in September 2005 and committed to completing the programme's five milestones. Since 2006, the Council has monitored emissions from its electricity use. It is still implementing its CCP-NZ programme action plan. A company collects and analyses data for the Council. It measures the energy consumption of all activities that the Council pays the electricity bill for, including area offices, libraries, halls, other property, water and sewage treatment plants, and street lights.

4.33 **Grey District Council** has contracted an energy and technical services data collection company to measure the Council's power, fuel, and coal use. The company is to benchmark the Council's energy use over time, and also use historical data from the Council's energy supplier. Relevant managers and staff can access and view the energy-use data, which they review for excessive energy use and reduction opportunities.

4.34 **Kapiti Coast District Council** has an energy policy to fast-track energy-saving projects and has implemented several initiatives. Examples include a wood boiler for drying sewage sludge, and insulation upgrades and solar water heating for its pensioner housing units. The Council also supports emission-reduction activities in the wider community, through an eco-design advisor service, a free low-energy-use light bulb offer, a sustainable home and garden show, and a Greenest Street Competition. The Council's long-term plan identifies climate change as a key issue/risk for the future.

4.35 **Environment Waikato** has a draft corporate sustainability strategy. It has completed an energy audit of the Council building and an efficiency audit of the vehicle fleet. It is implementing various efficiency measures as a result. A new vehicle-procurement policy with environmental criteria is being prepared, and a staff travel plan has been adopted. The Council has begun an energy audit of its flood pumps, which make up half of its corporate "footprint".

4.36 **Hamilton City Council** put in place a local action plan to reduce emissions from the Council's corporate activities and those of the community. In June 2010, the Council reaffirmed its commitment to carbon monitoring despite the CCP-NZ programme ending in June 2009. The Council's emission-reduction activities include implementing environmental management systems at major facilities, an internal smart water use campaign, energy-efficient street-lighting trials, and a Council-wide energy management programme. Reduction projects include heat recovery from boiler flues, office lighting upgrades, installation of solar hot water, modifications to car park lighting controls, and building management systems. Regular audits are carried out and generate additional reduction opportunities. The Council has a full-time energy manager. It has bought software to monitor and report on electricity and natural gas consumption across all Council-owned and operated facilities. The Council encourages community emission reductions through sustainability-focused programmes in the areas of households, urban design, transport, community planting, and gully restoration.

4.37 In June 2008, **Nelson City Council** adopted a sustainability policy that defines sustainability as the wise use and management of all resources. The Council monitors fuel, electricity, and water use to establish baseline information on resource use and to assess performance over time. The Council also has a climate-change action plan, which is to be integrated with the existing sustainability policy. The Council has integrated sustainability considerations into other policies and plans. It has a sustainable procurement policy. The chief executive leads an internal sustainability working group. The Council also has a sustainability checklist for staff to use when making decisions about procurement, travel, waste minimisation activities, and project design. The Council is to consider taking a whole-of-community approach to sustainability issues, rather than the current corporate focus.

4.38 **Palmerston North City Council** has measured greenhouse gas emissions from its activities since 2006. The Council aims to reduce emissions from its own activities and other activities within the district under a two-part strategy. Part 1 is a corporate action plan that focuses on emissions from Council operations in the city, including truck and equipment use, street and traffic lights, buildings, water and wastewater, vehicle fleet, corporate travel, and how employees get to and from work. It also identifies priority areas for reduction. Part 2 is still being written and will focus on community-wide emissions. It will build on the Council's existing sustainable city strategy.

4.39 **Porirua City Council** continued to measure its emissions after the CCP-NZ programme ended. It is focused on reducing the emissions from corporate activities. Initiatives carried out include a zero-waste programme, quarterly reporting on energy consumption, and recycling. The Council's action plan encourages considering emissions when making major decisions and implementing actions aimed at reducing corporate waste. Long-term climate change-related objectives centre on educating staff and elected members, and providing a culture that fosters an understanding of energy efficiency.

4.40 **Wellington City Council** has published a plan with a dual focus of climate-change adaptation and mitigation. It is the foundation for a more ambitious programme to be developed when the Council next reviews its long-term plan. The plan introduces the Council's wider stance on climate change, encompassing corporate and community activities. The Council has conducted studies to help understand the risks involved with climate change, and the likely responses that can be employed to both reduce risks and prepare for negative effects to safeguard the community. The Council intends to promote a co-ordinated approach through sharing information, ensuring consistency in approach, and promoting joint research projects and policy developments.

Do local authorities have targets for reducing emissions and is this information reported internally or externally?

4.41 A plan to reduce emissions needs targets to work towards and measures to assess and report progress against.

4.42 The CCP-NZ programme required local authorities to set targets to reduce corporate and community emissions. The local authorities that were members of that scheme set targets, some of which were ambitious. In some instances, the targets were global reduction targets for the local authority or the district. In other instances, targets were set by sector (for example, to reduce transport emissions by a certain percentage over time).

4.43 We asked whether local authorities with emission-reduction plans had targets for reducing emissions and related performance measures. We also asked whether local authorities were reporting on progress against targets, internally or externally, and whether any external assurance was provided over this information.

4.44 We found that 18 local authorities had targets for reducing emissions. Others had a target of not increasing emissions, but no reduction target. The targets were set against emissions measured in a baseline year, and were often expressed as a percentage reduction from the baseline year, to be achieved by a specified future year.

4.45 The local authorities had various reporting mechanisms, from internal reports to more explicit reporting in annual plans, long-term plans, and annual reports. It was generally easier for local authorities to report on progress on reducing their own emissions than on community emissions. Several local authorities were aiming for improved and more transparent reporting.

Are local authorities offsetting their greenhouse gas emissions?

4.46 For the year ended 30 June 2010, six local authorities had calculated the capacity of their forestry holdings to offset emissions or had methods to offset their emissions such as planting trees on council land to offset emissions from staff air travel, reserve and gully restoration and other biodiversity projects, or a "trees for travellers" scheme (where visitors to the district pay for a native tree to be planted on reserve land).

4.47 Given their interests in forestry, parks, and reserve land, it is not likely to be difficult for local authorities to identify offsetting opportunities.

Does the local authority monitor and report on production and disposal of waste?

4.48 Our auditors asked local authorities about monitoring and reporting on production and disposal of waste generated by the local authority or in the district. We expected that local authorities that operate landfills would be monitoring and reporting, and that regional councils might be monitoring, their own waste.

4.49 The Waste Minimisation Act 2008 and the ETS provide incentives to landfill operators to minimise the amount of waste sent to landfills. The Waste Minimisation Act requires landfill operators to pay a levy based on waste tonnage. The ETS will impose costs on landfill operators from 2013.

4.50 The ETS provides a further incentive for territorial authorities to consider landfill gas capture or diversion of organic waste, to reduce methane emissions and resultant liabilities.

4.51 For the year ended 30 June 2010, 19 councils were monitoring and reporting on waste they generated and disposed of, and 58 were not. Of those councils that were monitoring and reporting, six were city councils, four were regional councils, and nine were district councils.

4.52 We set out some examples of approaches to monitoring and reporting on waste in paragraphs 4.53 to 4.56.

4.53 **Porirua City Council** has a "zero waste" co-ordinator who reports on emissions arising from waste generated in the Council's administration building and has who initiated diversion processes. The Council's existing zero waste policy is to be extended to include corporate waste audit procedures and more regular reporting of progress.

4.54 **Northland Regional Council** reports on waste sent to landfill and has an active recycling programme for organic and inorganic waste. These recycling programmes aim to minimise waste going to landfill. The Council also offers a service to ratepayers to collect, store, and dispose of hazardous substances. The service includes monitoring contaminated sites.

4.55 **Wellington City Council** has carried out occasional surveys on waste generated from its activities. The Council's annual report includes figures for the amount of paper used and materials recycled. The Council runs a garden-waste composting operation for the city's organic waste, and a household recycling programme. Through a collaborative regional approach, the Council will be working on new and innovative projects to reduce the waste going into the landfills.

4.56 **Hamilton City Council** has long monitored and reported on the waste produced out of its main building. Targets and actual results for waste reduction were included in its annual report. The programme for measurement and diversion is being expanded to cover other Council facilities as each facility puts an environmental management system in place.

Next steps

4.57 Local authorities have used several strategies successfully to reduce their greenhouse gas emissions. These strategies include:

- working with staff to build an understanding of sustainability issues and encourage appropriate workplace behaviour, such as energy efficiency and good waste management;
- visible commitment from senior staff and elected members;
- thinking broadly about how environmental sustainability considerations affect other strategies, policies, and plans and integrating those considerations into other plans;
- establishing baseline information about energy consumption or waste management and carrying out audits to monitor progress;

- developing targets and measures to implement plans, and to report on progress in achieving these in internal documents and in public documents such as annual reports; and
- reporting on activities that are easy to measure and to understand, such as reducing energy consumption in office buildings.

4.58 We intend to continue to monitor and report on the activities of local authorities in managing and reducing emissions during the next few years, using the year ended 30 June 2010 as a baseline, with a view to reporting to Parliament on:

- the nature and extent of commitment by local authorities to these activities; and
- the effects of the ETS on these activities.

Part 5
The financial reporting environment and some current financial reporting issues

5.1 In this Part, we:

- comment on the financial reporting environment in New Zealand, including work the Ministry of Economic Development (the Ministry) and the Accounting Standards Review Board (ASRB) are doing to shape the future financial reporting environment; and
- outline current financial reporting issues that affect some entities in local government.

Summary

5.2 Financial reporting is at a crossroads, as a result of discussion documents issued by the Ministry and ASRB in 2009. We are pleased that the discussion documents have led to debate about possible changes to setting financial reporting standards, particularly for the public sector. There appears to be consensus that financial reporting standards need to better deal with the range of entities that report externally.

5.3 Financial reports have generally become more complex and large as a result of the adoption of New Zealand International Financial Reporting Standards (NZ IFRS). We would like to see financial reports simplified. However, we would also like to see some of the stringent requirements in standards, such as those related to hedge accounting for derivative transactions, simplified. In our view, there should be greater room for judgement about when to apply hedge accounting.

5.4 A number of entities, in response to the greater complexity of financial statements and a concern that performance is not being appropriately reported, have started disclosing underlying profits in annual reports. We have concerns about these disclosures because there is no guidance for them.

5.5 On a more positive note, we are pleased with improvements in local authorities' reports on service performance.

The financial reporting environment in New Zealand

5.6 In June 2009, we published a discussion paper entitled *The Auditor-General's views on setting financial reporting standards for the public sector*. In that paper, we expressed concerns about the ongoing suitability of NZ IFRS for many entities in the public sector. Our hope was that the discussion paper would promote constructive debate about changes needed to setting financial reporting standards, particularly for the public sector.

5.7 Since that report was published, the debate that we sought has been occurring. We note in particular:

- In September 2009, both the Ministry and the ASRB released for comment discussion documents about the statutory framework for financial reporting.[6]
- The Finance and Expenditure Committee has acknowledged the importance of financial reporting in the public sector, and has had the Ministry, the ASRB, the Treasury, and us appear on different occasions to discuss the financial reporting framework and financial reporting standards.
- There have been a number of conferences and seminars about the future of financial reporting in New Zealand, at which both the Ministry and the ASRB have been prominent.

5.8 We are pleased that the debate looks to have led to consensus that change is needed to setting financial reporting standards in New Zealand. There appears to be consensus that one body should be responsible for all aspects of setting financial reporting standards, and that the financial reporting standards need to change to better deal with the range of entities that report externally. The debate is now about the extent of change to standards, and whether separate standards may be needed for different types of entity.

Work the Ministry of Economic Development and the Accounting Standards Review Board are doing

5.9 The discussion documents released for comment by the Ministry and the ASRB have formed the basis for changes to setting financial reporting standards, including changes to the standards for the public sector.

5.10 The Ministry's discussion document considered the circumstances under which the law should impose requirements on entities to prepare, publish, and obtain assurance on general purpose financial reports. The ASRB document outlined its tentative proposals on the accounting standards to be used by entities required to prepare general purpose financial reports under the Ministry's document, and the level of assurance that should be provided on those reports.

5.11 Our comments in this Part about the work the Ministry and the ASRB are doing are limited to the financial reporting aspects of the discussion documents. Since the end of January 2010, when the documents closed for comment, both the Ministry and the ASRB have been doing work that we expect will lead to change.

6 The Ministry's discussion document was entitled *The Statutory Framework for Financial Reporting*. It can be downloaded from the Ministry's website – www.med.govt.nz. The ASRB discussion document, which was a companion to the Ministry's document, was entitled *Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting*. It can be downloaded from the ASRB website – www.asrb.co.nz.

5.12 The Ministry has been drafting legislation[7] that, if enacted, would consolidate the functions for setting financial reporting standards into one statutory board. The statutory board would be a reconstituted ASRB to be known as the External Reporting Board, or XRB for short. The XRB would be responsible for setting strategy as well as designing and approving financial reporting standards.

5.13 The Ministry is also drafting legislation that would establish which entities are required to publish general purpose financial reports. A principle-based approach would be applied in determining those entities, and that approach would result in changes to the current requirements. However, the changes would not affect entities in the public sector, which would continue to be required to publish general purpose financial reports.

5.14 The ASRB has considered the submissions it received on its discussion document. It has created a work programme that includes in-depth consideration of the main issues that will inform the decisions about the form of the new financial reporting framework. Some of these issues include:

- whether there should be a single set or multiple sets of financial reporting standards;
- the viability of both International Public Sector Accounting Standards (IPSAS) and enhanced NZ IFRS for application by entities in the New Zealand public sector;
- tiers of reporting and the criteria for allocating entities to the various tiers; and
- the extent to which New Zealand and Australian financial reporting standards should be converged.

5.15 The ASRB provides regular updates on its website about its deliberations on the above and other issues. As part of its deliberations, the ASRB has tentatively agreed that user needs should be the primary criterion for assessing alternative frameworks. It has also tentatively decided that only financial reporting standards for profit-oriented entities should be converged with Australia at this stage.

5.16 The ASRB has recently concluded that, to meet users' needs, the new accounting standards framework should consist of two sets of accounting standards, one to be applied by profit-oriented entities and the other to be applied by public benefit entities.[8] The ASRB is yet to outline and consult on the details of the proposed

7 The draft legislation is the Auditor Regulation and External Reporting Bill, which at the time of writing was before the Commerce Committee.

8 Public benefit entities are defined as reporting entities whose primary objective is to provide goods or services for community or 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. Public benefit entities in the public sector include such entities as local authorities, licensing trusts, cemeteries, administering bodies, government departments, district health boards, tertiary education institutions, schools, fish and game councils, other Crown entities, and Māori trust boards.

accounting standards frameworks. However, it has previously noted that IPSAS is a viable alternative for financial reporting standards for the public sector. The ASRB has not yet deliberated on the tiers of reporting and the criteria for allocating entities to tiers.

5.17 We are pleased to see user needs as the primary criterion. We are also pleased with the conclusion that the accounting standards framework should consist of two sets of accounting standards, and that IPSAS is a viable set of standards for the public sector. We have been advocating using IPSAS as the basis for financial reporting standards in the public sector for more than 18 months.

5.18 The ASRB is expected to continue its deliberations and form views on outstanding issues. It is also expected to consult further on changes that it proposes the XRB would formally adopt after it is established.

Current financial reporting issues in local government

5.19 A number of current financial reporting issues affect some local authorities or their subsidiaries. We comment on six of these issues in this section. The issues are:

- the complexity of financial reports;
- service performance reporting;
- underlying profit disclosures;
- accounting for income taxes;
- hedge accounting; and
- proposed changes to financial reporting standards.

Complexity of financial reports

5.20 Because of the amount of information that NZ IFRS requires to be disclosed, financial reports have become generally more complex and much larger. Complexity and excessive disclosures are a problem because members of governing bodies and other people who use financial reports often find it difficult to understand the information. Complexity has also meant some entities require external help to prepare their financial reports, which comes at a cost.

5.21 In the public sector, the main reasons entities are required to prepare financial reports are to account for their use of public funds and, to a lesser extent, to help readers of the reports to make decisions. Therefore, in our view, clear, straightforward information is going to best discharge this accountability obligation.

5.22 We would like to see financial reports simplified as much as possible, particularly fewer disclosures in the notes to the financial statements. However, given the current approach to setting financial reporting standards and the time it would take for any changes to be effective, the issues of complexity and excessive disclosures are likely to continue for some time yet.

Service performance reporting

5.23 Many entities are required to report on their service performance. It is generally recognised that this reporting could be improved. Improved reporting on service performance fits well with the Government's desire for better effectiveness, efficiency, and value for money from the public sector.

5.24 Service performance reports are a crucial part of the accountability documents in the public sector. It is important that the service performance reports work with the financial statements to convey a coherent and consistent picture of each entity's performance. This is because true accountability requires transparency about financial and service performance, and an appropriate relationship between the two.

5.25 We have been seeking improvements to service performance reporting for a number of years, and we are pleased to see improvements occurring. We discuss our work on service performance reporting by local authorities in Article 4 in Section 2.

Underlying profit disclosures

5.26 A number of the more commercial entities, such as council-controlled trading organisations, have been including and commenting on underlying profit amounts in their annual reports. Some councils have also reported an "underlying profit". The underlying profit amount is different to the profit in the financial statements, which is based on accounting requirements in NZ IFRS.[9] The term "underlying profit" is not defined in financial reporting standards, but it typically excludes the effects of accounting for changes in the value of financial instruments and "one-off" transactions.

5.27 We understand that the more commercial entities are reporting such amounts in response to the complexity of financial reports, combined with concern that their financial reports based on NZ IFRS are not fairly reflecting their performance. These entities see the requirements to recognise fair value movements as complicating their financial reports, which is why they make adjustments to exclude the effects of those movements. Also, the economic downturn has

9 Terminology other than "underlying profit" may be used to describe a profit amount that differs to the profit based on NZ IFRS. Examples of such terminology include "underlying result", "underlying earnings", "normalised result", "result before non-recurring items", and "result before significant items".

resulted in impairments, restructurings, and other so-called one-off costs. By removing these movements and costs, entities consider they are better reporting underlying financial performance.

5.28 Although we encourage entities to include information in their annual reports that is likely to be relevant to users, we have some unease about the practice of disclosing underlying profit. Reasons for our unease include:

- There is no guidance on what underlying profit is, or how it is arrived at, and therefore inconsistent practices could occur among different entities.
- Underlying profit often receives significant prominence in the annual report, and could overshadow financial information based on NZ IFRS.
- Underlying profit is not always clearly labelled as supplementary information additional to that required by NZ IFRS.

5.29 We are aware that, internationally, standard-setters are reconsidering how best to present income in financial statements. It is not clear whether that work will result in information that better presents the financial performance of entities, so that the need for underlying profit disclosures is eliminated or at least reduced.

Accounting for income taxes

5.30 The removal of tax deductions for depreciation on buildings has had a significant effect on the financial statements of entities that both own buildings and pay tax, such as a number of council-controlled organisations. The effect is a significant increase in both the tax expense and deferred tax liability recognised in financial statements of such entities.

5.31 Many people, including preparers of financial statements, have been very critical of the financial reporting standard that requires the recognition of larger deferred tax liabilities. They consider that the increase in the deferred tax liability does not represent the underlying economic reality of the removal of tax deductions for depreciation on buildings.

5.32 Unfortunately, in contrast to many other financial reporting standards dealing with other assets and liabilities, the standard on income tax does not allow for the discounting of deferred taxation balances. The lack of ability to discount appears to be at the heart of the issue.

5.33 Although the removal of tax deductions for depreciation on buildings brought the issue to light again in the financial year to 30 June 2010, the issue with the standard has existed since it was adopted at the end of 2004. Given the current approach to setting financial reporting standards, the issue will continue to exist until changes are made to the international financial reporting standard on tax.

Hedge accounting

5.34 The requirements in financial reporting standards that need to be followed for entities to hedge account for derivative transactions[10] are stringent, particularly for entities that use derivatives infrequently. Those entities are unlikely to have systems or processes to meet the requirements of the standard, and therefore may choose not to hedge account or may overlook the requirements that would allow the entities to hedge account. In either case, hedge accounting is not applied even though it may best reflect the underlying economic reality of the transactions.

5.35 We acknowledge that it is important to be careful about applying hedge accounting, particularly given the ease with which derivative transactions can be entered into and the possibility of speculative derivative transactions. However, the stringent requirements mean that entities have no room for judgement about hedge accounting retrospectively, even though that may be appropriate for particular derivative transactions.

5.36 In December 2010, proposals to change the financial reporting standard about hedge accounting were issued for comment. The proposals more closely align hedge accounting with entities' risk management activities. However, the proposals retain many of the stringent process requirements, which remove room for judgement about applying hedge accounting.

5.37 We would prefer hedge accounting requirements to allow more room for judgement, particularly for smaller entities or those that use derivatives infrequently, because in our view that would better serve the entities and the users of the financial statements of those entities. Given the current approach to setting financial reporting standards, this issue will continue to exist until further changes are made to the international financial reporting standard on financial instruments.

Proposed changes to financial reporting standards

5.38 In July 2010, a proposal was published to change a number of standards within NZ IFRS in the interests of aligning New Zealand and Australian financial reporting standards for profit-oriented entities. The proposed changes affected all aspects of financial reporting, including recognition, measurement, presentation, and disclosure. The proposed changes would mainly result in the undoing of previous

10 Derivative transactions are transactions to be settled in the future that require no or only a small initial investment, and where the value changes in response to changes to an external variable such as an interest rate, commodity price, foreign exchange rate, or consumer price index. Common derivative transactions include foreign exchange contracts and interest rate swaps. Such transactions can provide an entity with some level of certainty for the underlying transaction, commitment, asset, or liability. Hedge accounting recognises the offsetting effects on surplus or deficit of changes in the fair value of the derivative and the underlying transaction, commitment, asset, or liability.

changes New Zealand made to IFRS when establishing NZ IFRS. In other words, the proposed changes would more closely align NZ IFRS to IFRS. Other changes would result in some requirements being moved to a new standard.

5.39 We reviewed the proposed changes. We were concerned that, although the motivation was to align New Zealand and Australian financial reporting standards for profit-oriented entities, most of the proposals inadvertently affected all other entities. We provided detailed comments on the proposals, which can be summarised as follows:

- Proposals affecting recognition, measurement, and presentation are not in the best interests of high-quality financial information for those who use financial statements.
- Proposals to relocate unrelated specific New Zealand requirements to one New Zealand standard are not helpful to preparers of financial statements.
- Proposals to remove minor disclosure requirements and low-level guidance do not appear to affect those who use financial statements in a significant way.

5.40 The proposals have not yet been finalised and, therefore, do not currently affect the financial statements of entities in the public sector. We hope that the proposals will be reconsidered rather than finalised as proposed, because of our concern that many of them are not in the best interests of either those who use financial statements or those who prepare them.

Part 6

Non-standard audit reports issued in 2010

6.1 In this Part, we report on the non-standard audit reports issued on the financial statements of entities within the local government portfolio of audits[11] during the 2010 calendar year.

6.2 We explain why we discuss this information, and what a non-standard audit report is, before discussing the:

- adverse opinions;
- disclaimer of opinions;
- except-for opinions; and
- explanatory paragraphs.

Summary

6.3 We issued 712 audit reports within our local government portfolio during the 2010 calendar year, 92 of which were non-standard.

6.4 We have been increasing the use of explanatory paragraphs in our audit reports. An explanatory paragraph causes a non-standard audit report, but does not represent a qualification to our opinion. Rather, it draws the reader's attention to a matter of significance that, from our perspective, is particularly relevant to the information provided by the local government.

6.5 We will continue to monitor and report on entities where there is fundamental uncertainty over the "going concern" assumption used in the preparation of financial statements. The audit opinions of some of the local authority subsidiaries reflected this issue (see paragraphs 6.38 and 6.39).

Why we report this information

6.6 An audit report is addressed to the readers of an entity's financial statements. However, all public entities are ultimately accountable to Parliament for their use of public money and their use of any statutory powers or other authority given to them by Parliament. Therefore, we consider it important to draw Parliament's attention to the matters that give rise to non-standard audit reports.

6.7 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.

11 The local government portfolio of audits includes regional, city, and district councils, licensing trusts, airports, council-controlled organisations, council-controlled trading organisations, energy companies, port companies, and Sinking Fund Commissioners. We report separately on entities within the central government portfolio in our yearly report on the results of audits for that sector.

What is a non-standard audit report?

6.8 A non-standard audit report[12] is one that contains:

- a qualified opinion; and/or
- an explanatory paragraph.

6.9 The introduction of New Zealand equivalents to International Auditing Standards will change the terminology used to describe types of non-standard audit reports. Future non-standard audit report articles will use the new terminology.

6.10 An auditor expresses a **qualified opinion** because of:

- a disagreement between the auditor and the entity about the treatment or disclosure of a matter in the financial statements; or
- a limitation in scope because the auditor has been unable to obtain enough appropriate evidence to support, and accordingly is unable to express, an opinion on the financial statements or a part of the financial statements.

6.11 There are three types of qualified opinion:

- an "adverse" opinion (see paragraphs 6.15-6.16);
- a "disclaimer of opinion" (see paragraph 6.20); and
- an "except-for" opinion (see paragraphs 6.25-6.26).

6.12 The auditor will include an **explanatory paragraph** (see paragraphs 6.30-6.31) in the audit report to draw attention to matters such as:

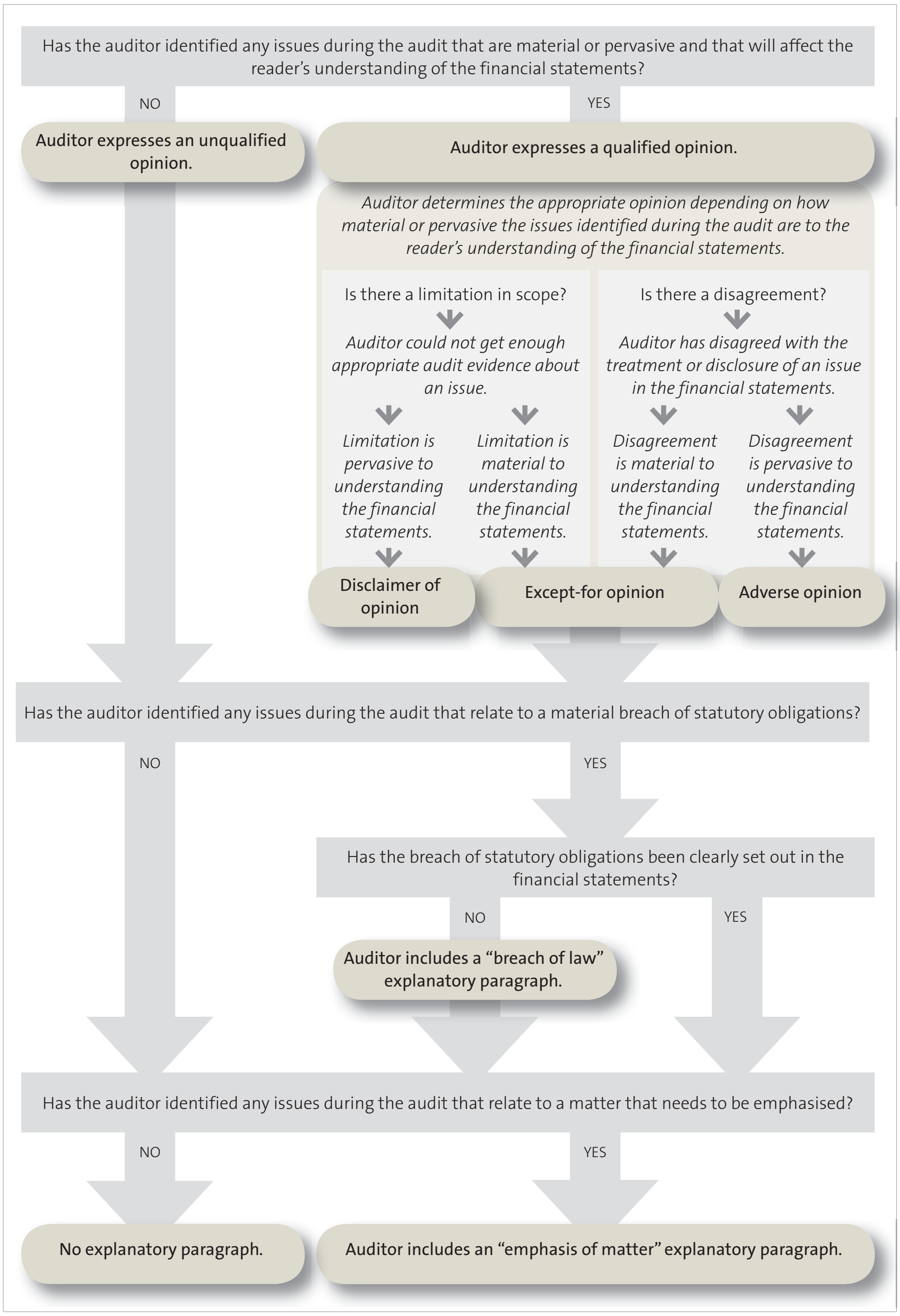
- a breach of law; or
- a fundamental uncertainty.

6.13 Auditors have to include an explanatory paragraph in the audit report in such a way that it cannot be mistaken for a qualified opinion.

6.14 Figure 5 outlines the decisions that an auditor has to make when considering the appropriate form of the audit report.

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

Figure 5
Deciding on the appropriate form of the audit report



Note: This flowchart is based on the requirements of the New Zealand Institute of Chartered Accountants Auditing Standard No. 702: *The Audit Report on an Attest Audit*. We have not based it on the International Standard on Auditing (New Zealand) because that standard applies to audits of financial statements for periods beginning on or after 1 October 2009.

Adverse opinions

6.15 An adverse opinion is the most serious type of non-standard audit report.

6.16 An adverse opinion is expressed when the auditor and the entity disagree about the treatment or disclosure of a matter in the financial statements, and, in the auditor's judgement, the treatment or disclosure is so material or pervasive that the financial statements are seriously misleading.

6.17 During 2010, we expressed an adverse opinion for four public entities:

- the Canterbury Museum Trust Board;
- Otago Museum Trust Board;
- Southland Museum and Art Gallery Trust Board Incorporated (an entity associated with Gore District Council, Invercargill City Council, and Southland District Council); and
- Pukaki Trust (for the years ended 30 June 2006, 30 June 2007, 30 June 2008, and 30 June 2009).

6.18 These entities have not recognised their collection assets or the associated depreciation expense in their financial statements. This is a breach of financial reporting standards. For a number of years, these entities have expressed concern with assigning financial values and useful lives to collection assets that are intended to be maintained for hundreds of years. Because of their concerns, we do not anticipate any change to how the entities account for their collection assets.

6.19 The Appendix sets out the details of the adverse opinions.

Disclaimers of opinion

6.20 A disclaimer of opinion is expressed when the scope of an auditor's examination is limited, and the possible effect of that limitation is so material or pervasive that the auditor has not been able to obtain enough appropriate evidence to support an opinion on the financial statements. The auditor is accordingly unable to express an opinion on the financial statements or on part of it.

6.21 During 2010, we expressed a disclaimer of opinion for Ohingaiti Cemetery for the year ended 31 March 2004.

6.22 The qualified audit opinion expressed for Ohingaiti Cemetery was the result of the auditor not being able to verify that revenue and payments recorded in the statement of accounts were properly incurred or correctly classified.

6.23 We note that some Cemetery Trusts have received an except-for opinion because the auditor could verify only some aspects of their statements of accounts. Many cemetery trustees are in arrears in preparing their annual statements of accounts. Because of this, audit reports have not been issued, which is a concern – there is no assurance that funds held for managing cemeteries are correctly accounted for.

6.24 The Appendix sets out the details of the disclaimer of opinion.

Except-for opinions

6.25 An except-for opinion is expressed when the auditor reaches one or both of the following conclusions:

- The possible effect of a limitation in the scope of the auditor's examination is (or may be) material but is not significant enough to require a disclaimer of opinion. 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.
- 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, significant enough to require an adverse opinion. The opinion is qualified by using the words "except for the effects of" the matter giving rise to the disagreement.

6.26 An except-for opinion is also 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. The subsidiary is therefore unable to prepare performance information that reflects its achievements measured against performance targets.

6.27 During 2010, we expressed except-for opinions on the financial statements or performance information of the following public entities:

- Carterton District Council;
- Grey District Council;
- South Wairarapa District Council;
- Invercargill City Council;
- Invercargill City Holdings Limited and group (a subsidiary of Invercargill City Council);
- Sarjeant Gallery Trust Board;
- Chatham Islands Electricity Limited;
- Chatham Islands Management Limited;

- Te Kauwhata Licensing Trust;
- Ruakaka Reserve Board (three years ended 30 June 2006, 30 June 2007, and 30 June 2008);
- East Otago Community Sports and Cultural Centre Trust (a trust controlled by Dunedin City Council);
- Blackstone Hill Cemetery Trust (three years ended 31 March 2007, 31 March 2008, and 31 March 2009);
- Coates Memorial Church Board (three years ended 30 June 2006, 30 June 2007, and 30 June 2008);
- Tauranga City Investments Limited and group (a subsidiary of Tauranga City Council);
- Tauranga City Aquatics Limited (a subsidiary of Tauranga City Council);
- Tauranga City Venues Limited (a subsidiary of Tauranga City Council);
- Waipu Cove Reserve Board (three years ended 30 June 2006, 30 June 2007, and 30 June 2008);
- Ohingaiti Cemetery (three years ended 31 March 2005, 31 March 2006, and 31 March 2007);
- Mangungu Cemetery;
- Papakaio Cemetery Trustees;
- Dunedin (New Zealand) Masters Games Trust (a trust controlled by Dunedin City Council);
- Crops for Southland Incorporated Society (an entity associated with Gore District Council, Invercargill City Council, and Southland District Council) (two years ended 30 June 2009 and 30 June 2010);
- Independent Roadmarkers Taranaki Limited (a subsidiary of Waitomo District Council);
- Mackenzie Tourism and Development Trust (a trust controlled by Mackenzie District Council);
- Newtons Coachways (1993) Limited (a subsidiary of Dunedin City Council);
- Safer Papakura Trust (a trust controlled by the former Papakura District Council);
- Titanium Park Joint Venture (a joint venture associated with Hamilton City Council, Waipa District Council, Waikato District Council, Matamata-Piako District Council, and Otorohanga District Council);
- Titanium Park Limited (a company associated with Hamilton City Council, Waipa District Council, Waikato District Council, Matamata-Piako District Council, and Otorohanga District Council); and

- Whangarei District Council Mayoral Disaster Relief Fund Trust (a trust controlled by Whangarei District Council) (two years ended 30 June 2008 and 30 June 2009).

6.28 The except-for opinions expressed for Carterton, Grey, and South Wairarapa District Councils reflected a limitation on the audit of performance information. The auditor was not able to obtain enough audit evidence to support aspects of the actual service performance for the year. We discuss our work on service performance reporting by local authorities in Article 4 in Section 2.

6.29 The Appendix sets out the details of the except-for opinions. In some cases, the audit opinion was qualified for more than one reason.

Explanatory paragraphs

6.30 In certain circumstances, it may be appropriate for the auditor to include additional comments in the audit report. The auditor draws attention to a matter that they consider relevant to a reader's proper understanding of an entity's financial statements or service performance information through an explanatory paragraph.

6.31 For example, an explanatory paragraph could draw attention to an entity having breached its statutory obligations for matters that may affect or influence a reader's understanding of the entity's financial statements. In this situation, the audit report would normally draw attention to the breach only if the entity had not clearly disclosed the breach in its financial statements.

6.32 During 2010, we used nine main types of explanatory paragraphs for entities within the local government portfolio.

6.33 The first type of explanatory paragraph related to the reporting of performance information for the current year against an appropriately revised performance framework, compared to the framework in the 2009-19 long-term council community plan that contained a qualified opinion. The audit opinions for the Central Otago District Council and Tararua District Council included such explanatory paragraphs.

6.34 The second type of explanatory paragraph related to disclosures about the new local government structure for the Auckland region. The audit opinions for North Shore Events Centre Trust Board and Events Centre Enterprises (entities controlled by North Shore City Council) included such explanatory paragraphs.

6.35 The third type of explanatory paragraph related to serious financial difficulties faced by the entity. The audit opinion for Waitomo District Council and group included such an explanatory paragraph.

6.36 The fourth type of explanatory paragraph related to the requirement for additional financing to complete a stadium redevelopment. The audit opinion for Eden Park Trust Board included such an explanatory paragraph.

6.37 The fifth type of explanatory paragraph related to a provision recognised by a Board for unseen repairs and maintenance that did not meet the definition of a liability but that was not material to the financial statements as a whole. The audit opinion for South Port New Zealand Limited and group (a subsidiary of Environment Southland) included such an explanatory paragraph.

6.38 The sixth type of explanatory paragraph related to fundamental uncertainty about the validity of the "going concern" assumption. The following entities' audit reports included such an explanatory paragraph:

- TDC Holdings Limited and group (a subsidiary of Tararua District Council);
- Infracon Limited (a subsidiary of Tararua District Council and an entity in which Central Hawke's Bay District Council has a minority interest);
- Central Plains Water Trust (a trust established by Selwyn District Council and Christchurch City Council);
- Ferguson Brothers Limited (a subsidiary of Selwyn District Council);
- Inframax Construction Limited (a subsidiary of Waitomo District Council);
- St James Theatre Charitable Trust (a subsidiary of Wellington City Council); and
- St James Theatre Limited (a subsidiary of Wellington City Council).

6.39 These local authority subsidiaries have an effect on their shareholder in that local authorities often need to provide them with financial support. In some instances, providing financial support can affect a local authority's funding decisions about other services. In the longer term, this can affect the level of service that a local authority can provide to its community.

6.40 The seventh type of explanatory paragraph related to the "going concern" assumption being appropriately used to prepare the financial statements because the entity was able to levy members to cover shortfalls in equity. The audit opinion for New Zealand Mutual Liability Riskpool included such an explanatory paragraph.

6.41 The eighth type of explanatory paragraph related to the "going concern" assumption being appropriately not used because entities were disestablished or expected to be disestablished in the near future. The following entities' audit reports included such an explanatory paragraph:

- Hurunui Holdings Limited (a subsidiary of Hurunui District Council);
- Forever Beech Limited;
- Forever Holdings Limited;
- Mana Tavern Limited;
- KB Irrigation Limited (a subsidiary of Selwyn District Council);
- Selwyn Plantation Board Limited (a subsidiary of Selwyn District Council);
- Paragon Oil Limited;
- Port Westland Limited (two years ended 30 June 2008 and 30 June 2009);
- Puhoi Cemetery Board (three years ended 31 March 2007, 31 March 2008, and 31 March 2009);
- Rangitikei Mayoral Relief Trust (a trust controlled by Rangitikei District Council);
- Eastern Bay of Plenty Mayoral Disaster Relief Fund Trust;
- Tauranga Moana Heritage Trust (a trust controlled by Tauranga City Council);
- Manukau City Council Sinking Fund Commissioners; and
- Tauranga City Council Sinking Fund Commissioners.

6.42 The ninth type of explanatory paragraph related to breaches of statutory obligations that were not disclosed by the entities themselves in their financial statements. The following entities' audit reports included such explanatory paragraphs:

- Greater Wellington Rail Limited (a subsidiary of Greater Wellington Regional Council);
- Hamilton Properties Limited (a subsidiary of Hamilton City Council);
- Port Investments Limited and group (a subsidiary of Greater Wellington Regional Council);
- Pringle House Limited (a subsidiary of Greater Wellington Regional Council);
- Yarrow Stadium Trust (a trust controlled by New Plymouth District Council);
- Titanium Park Limited (a company associated with Hamilton City Council, Waipa District Council, Waikato District Council, Matamata-Piako District Council, and Otorohanga District Council);
- The North Shore Domain and North Harbour Stadium Trust Board (a trust controlled by North Shore City Council);
- Whakatane Airport Authority (a joint venture associated with Whakatane District Council); and
- Mangere Cemetery Board.

6.43 The Appendix contains more information about the explanatory paragraphs that were included in audit reports.

Appendix
Details of the non-standard audit reports issued in 2010

These details relate to non-standard audit reports issued during the 2010 calendar year. Where an entity is directly or indirectly controlled by or associated with one or more city, district, or regional councils, we have listed them in brackets.

Adverse opinions

The Canterbury Museum Trust Board

Financial statements year ended: 30 June 2010

We disagreed with the Board not recognising the museum collection assets of the Trust nor the associated depreciation expense, in the Trust's financial statements. These are departures from New Zealand Equivalent to International Accounting Standard 16: *Property, Plant and Equipment*, which requires museum collection assets to be recognised and depreciated where appropriate.

Otago Museum Trust Board

Financial statements year ended: 30 June 2010

We disagreed with the Board not recognising the museum collection assets of the Trust nor the associated depreciation expense, in the Trust's financial statements. These are departures from New Zealand Equivalent to International Accounting Standard 16: *Property, Plant and Equipment*, which requires museum collection assets to be recognised and depreciated where appropriate.

Southland Museum and Art Gallery Trust Board Incorporated (Gore District Council, Invercargill City Council, and Southland District Council)

Financial statements year ended: 30 June 2010

We disagreed with the Trustees not recognising the museum collection assets of the Trust nor the associated depreciation expense, in the Trust's financial statements. These are departures from New Zealand Equivalent to International Accounting Standard 16: *Property, Plant and Equipment*, which requires museum collection assets to be recognised and depreciated where appropriate.

Pukaki Trust

Financial statements year ended: 30 June 2006

We disagreed with the Trustees ceasing to recognise the monetary value for the Pukaki artwork asset owned by the Trust and writing off the previous value of the artwork asset in the Trust's financial statements. The Trustees' decision resulted in an overstatement of the expenditure and deficit in the Statement of Financial Performance and an understatement of the assets and equity of the Trust. These are departures from Financial Reporting Standard No 3: *Accounting for Property, Plant and Equipment*, which requires collection assets to be recognised initially at fair value and depreciated where appropriate.

Pukaki Trust

Financial statements years ended: 30 June 2007, 30 June 2008, and 30 June 2009

We disagreed with the Trustees not recognising the monetary value for the Pukaki artwork asset owned by the Trust in the Trust's financial statements. This is a departure from New Zealand Equivalent to International Accounting Standard 16: *Property, Plant and Equipment*, which requires collection assets to be recognised and depreciated where appropriate.

Disclaimer of opinions

Ohingaiti Cemetery

Financial statements year ended: 31 March 2004

We were unable to form an opinion on the financial statements because we were unable to verify some revenue due to limited controls over that revenue. We were also unable to determine whether all payments recorded in the statement of accounts had been properly incurred or correctly classified, and we were unable to obtain enough appropriate audit evidence of transactions that occurred during the period from 14 April 2003 to 12 December 2003 because bank statements for that period were lost. We noted two breaches of the Burial and Cremation Act 1964 where the Cemetery Trustees failed to keep both a full account of all money received and expended, and a register of burials.

Except-for opinions

Carterton District Council

Financial statements year ended: 30 June 2010

Our audit of performance information was limited because we were unable to obtain enough appropriate audit evidence to support the District Council's estimates of how long it took to respond to complaints and requests for service. The limitation arose because the Council's system for recording such requests was not being fully used, which meant that the Council had to estimate its performance on these particular measures.

Grey District Council

Financial statements year ended: 30 June 2010

Our audit of performance information was limited because we were unable to obtain enough appropriate audit evidence to support the District Council's estimates of how long it took to respond to complaints and requests for service; and the Council was unable to present a relevant indicator of users' satisfaction with the services they receive. The limitations arose because the Council did not collect data about how long it took to respond to various ratepayers' complaints and requests for service. The Council therefore had to estimate its performance. It did not carry out a user satisfaction survey as planned and it did not have information from any previous survey.

South Wairarapa District Council

Financial statements year ended: 30 June 2010

Our audit of performance information was limited because we were unable to obtain enough appropriate audit evidence to support the District Council's estimates of how long it took to respond to complaints and requests for service; and the Council was unable to present a relevant indicator of users' satisfaction with the services they receive. The limitations arose because the Council did not collect data about how long it took to respond to various ratepayers' complaints and requests for service. It therefore had to estimate its performance. The Council did not carry out a user satisfaction survey as planned, nor did it have information from any previous survey.

Invercargill City Council

Financial statements year ended: 30 June 2010

Our audit was limited because the Council group financial statements for the year ended 30 June 2009, presented as comparative information, included unaudited figures relating to an associate that was disposed of during 2009. Any misstatement of the unaudited figures would affect the financial performance of the group for the year ended 30 June 2009.

Invercargill City Holdings Limited and group (Invercargill City Council)

Financial statements year ended: 30 June 2010

Our audit was limited because the group financial statements for the year ended 30 June 2009, presented as comparative information, included unaudited figures relating to an associate company that was disposed of during 2009.

Sarjeant Gallery Trust Board

Financial statements year ended: 30 June 2009

Our audit was limited because the financial statements of the Trust had not previously been audited. Therefore we did not offer an opinion on the comparative figures presented and noted that that any misstatement of the comparative figures would affect the results for the year ended 30 June 2009.

Chatham Islands Electricity Limited

Financial statements year ended: 30 June 2010

Our audit was limited because the financial statements of the company had not previously been audited. Therefore, we did not offer an opinion on the comparative figures presented. Any misstatement of the comparative figures would affect the results for the year ended 30 June 2010.

Chatham Islands Management Limited

Financial statements year ended: 30 June 2010

Our audit was limited because the financial statements of the company had not previously been audited. Therefore, we did not offer an opinion on the comparative figures presented. Any misstatement of the comparative figures would affect the results for the year ended 30 June 2010.

Te Kauwhata Licensing Trust

Financial statements year ended: 31 March 2008

Our audit was limited in respect of the comparative information because, for the year ended 31 March 2007, we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue and because of limited controls over the stock on hand at the point-of-sale.

Ruakaka Reserve Board

Financial statements years ended: 30 June 2006, 30 June 2007, and 30 June 2008

Our audit was limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue. We also disagreed with the Board not providing budgeted figures in the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows as required by section 41(2)(k) of the Public Finance Act 1989.

East Otago Community Sports and Cultural Centre Trust (Dunedin City Council)

Financial statements year ended: 30 June 2009

Our audit was limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue.

Blackstone Hill Cemetery Trust

Financial statements years ended: 31 March 2007, 31 March 2008, and 31 March 2009

Our audit was limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue.

Coates Memorial Church Board

Financial statements years ended: 30 June 2006, 30 June 2007, and 30 June 2008

Our audit was limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue.

Tauranga City Investments Limited and group (Tauranga City Council)

Financial statements year ended: 30 June 2010

Our audit was limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue.

Tauranga City Aquatics Limited (Tauranga City Council)

Financial statements year ended: 30 June 2010

Our audit was limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue.

Tauranga City Venues Limited (Tauranga City Council)

Financial statements year ended: 30 June 2010

Our audit was limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue.

Waipu Cove Reserve Board

Financial statements years ended: 30 June 2006, 30 June 2007, and 30 June 2008

Our audit was limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue.

Ohingaiti Cemetery

Financial statements years ended: 31 March 2005, 31 March 2006, and 31 March 2007

Our audit was limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue. We were also unable to obtain enough appropriate audit evidence to support all payments. We noted a breach of the Burial and Cremation Act 1964 because the Cemetery Trustees failed to keep a register of burials.

Mangungu Cemetery

Financial statements year ended: 31 March 2007

Our audit was limited because we were unable to obtain enough appropriate audit evidence to support all expenditure.

Papakaio Cemetery Trustees

Financial statements year ended: 31 March 2009

Our audit was limited because we were unable to obtain enough appropriate audit evidence to support all expenditure.

Dunedin (New Zealand) Masters Games Trust (Dunedin City Council)

Financial statements year ended: 30 June 2010

Our audit was limited because the Board did not adopt a Statement of Intent for the year ended 30 June 2010 as required by the Local Government Act 2002; therefore, the Board was unable to prepare performance information that reflected the Trust's achievements measured against its performance targets. Our audit was also limited because we were unable to obtain sufficient assurance over the completeness of revenue due to limited controls over that revenue. We also noted a breach of the Local Government Act 2002 because the Board did not prepare a Statement of Intent for the year beginning 1 July 2010.

Crops for Southland Incorporated Society (Gore District Council, Invercargill City Council, and Southland District Council)

Financial statements year ended: 30 June 2009

Our audit was limited because the Society did not adopt a Statement of Intent for the year ended 30 June 2009 as required by the Local Government Act 2002; therefore, the Society was unable to prepare performance information that reflected its achievements measured against its performance targets. We also noted a breach of the Local Government Act 2002 because the Society did not prepare a Statement of Intent for the year beginning 1 July 2009.

Crops for Southland Incorporated Society (Gore District Council, Invercargill City Council, and Southland District Council)

Financial statements year ended: 30 June 2010

Our audit was limited because the Society did not adopt a Statement of Intent for the year ended 30 June 2010 as required by the Local Government Act 2002; therefore, the Society was unable to prepare performance information that reflected its achievements measured against its performance targets. We also noted a breach of the Local Government Act 2002 because the Society did not prepare a Statement of Intent for the year beginning 1 July 2010.

Independent Roadmarkers Taranaki Limited (Waitomo District Council)

Financial statements year ended: 30 June 2010

Our audit was limited because the Board did not adopt a Statement of Intent for the year ended 30 June 2010 as required by the Local Government Act 2002; therefore, the Board was unable to prepare performance information that reflected the company's achievements measured against its performance targets.

Mackenzie Tourism and Development Trust (Mackenzie District Council)

Financial statements year ended: 30 June 2008

Our audit was limited because the Trust did not adopt a Statement of Intent for the year ended 30 June 2008 as required by the Local Government Act 2002; therefore, the Trustees were unable to prepare performance information that reflected the Trust's achievements measured against its performance targets.

Newtons Coachways (1993) Limited (Dunedin City Council)

Financial statements year ended: 30 June 2010

Our audit was limited because the Board did not adopt a Statement of Intent for the period ended 30 June 2010 as required by the Local Government Act 2002; therefore, the Board was unable to prepare performance information that reflected the company's achievements measured against its performance targets.

Safer Papakura Trust (the former Papakura District Council)

Financial statements year ended: 30 June 2010

Our audit was limited because the Board did not adopt a Statement of Intent for the year ended 30 June 2010 as required by the Local Government Act 2002; therefore, the Board was unable to prepare performance information that reflected the Trust's achievements measured against its performance targets.

Titanium Park Joint Venture (Hamilton City Council, Waipa District Council, Waikato District Council, Matamata-Piako District Council, and Otorohanga District Council

Financial statements period ended: 30 June 2009

Our audit was limited because the Joint Venture Board did not adopt a Statement of Intent for the period 10 October 2008 to 30 June 2009 as required by the Local Government Act 2002; therefore, the Joint Venture Board was unable to prepare performance information that reflected the Joint Venture's achievements measured against its performance targets. We also noted a breach of the Local Government Act 2002 because the Joint Venture did not prepare a Statement of Intent for the year beginning 1 July 2009.

Titanium Park Limited (Hamilton City Council, Waipa District Council, Waikato District Council, Matamata-Piako District Council, and Otorohanga District Council)

Financial statements year ended: 30 June 2009

Our audit was limited because the Board did not adopt a Statement of Intent for the year ended 30 June 2009 as required by the Local Government Act 2002; therefore, the Board was unable to prepare performance information that reflected the company's achievements measured against its performance targets.

Whangarei District Council Mayoral Disaster Relief Fund Trust (Whangarei District Council)

Financial statements period ended: 30 June 2008

Our audit was limited because the Trustees did not adopt a Statement of Intent for the period ended 30 June 2008 as required by the Local Government Act 2002; therefore, the Trustees were unable to prepare performance information that reflected the Trust's achievements measured against its performance targets. We also noted the disclosure in the financial statements that the Trustees did not prepare a Statement of Intent for the period beginning 1 July 2008.

Whangarei District Council Mayoral Disaster Relief Fund Trust (Whangarei District Council)

Financial statements year ended: 30 June 2009

Our audit was limited because the Trustees did not adopt a Statement of Intent for the year ended 30 June 2009 as required by the Local Government Act 2002; therefore, the Trustees were unable to prepare performance information that reflected the Trust's achievements measured against its performance targets.

Explanatory paragraphs – emphasis of matter

Central Otago District Council

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements about previous concerns with aspects of the performance framework. The District Council's audit report on the 2009-19 long-term council community plan (LTCCP) contained a qualified opinion because the performance framework, which did not specify intended service levels, had incomplete performance measures and a number of those measures did not have targets specified. Also, the relationship between community outcomes, service levels, and performance measures and targets across the Council's activities was not adequately explained. Since then, the Council had revised its performance framework by enhancing performance measures and targets associated with its activities that reflected the intended service levels in the LTCCP and by making progress in explaining the relationship between community outcomes, service levels, and performance measures and targets. The revised performance framework, which is reported against in the performance information for the year ended 30 June 2010, provided an appropriate basis for meaningful assessment of the Council's performance.

Tararua District Council

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements about previous concerns with aspects of the performance framework. The District Council's audit report on the 2009-19 long-term council community plan (LTCCP) contained a qualified opinion because there was inadequate information to support the forecast expenditure and levels of service for water and waste infrastructure. Since then, the Council had revised and enhanced performance measures and targets associated with its activities that reflect the intended service levels inherent in the LTCCP. The performance measures and targets were consistent with the forecast expenditure in the LTCCP. Therefore, the revised performance framework, which was reported against in the performance information for the year ended 30 June 2010, provided an appropriate basis for meaningful assessment of the Council's performance.

North Shore Events Centre Trust Board (North Shore City Council)

Financial statements year ended: 31 December 2009

We noted the disclosure in the financial statements that referred to the new local government structure for the Auckland region and the fact that decisions had to be made on the Auckland Council's structure and operations including how the Company would be vested and integrated.

Events Centre Enterprises (North Shore City Council)

Financial statements year ended: 31 December 2009

We noted the disclosure in the financial statements that referred to the new local government structure for the Auckland region and the fact that decisions had to be made on the Auckland Council's structure and operations including how the company would be vested and integrated.

Waitomo District Council and group

Financial statements year ended: 30 June 2010

We drew attention to the disclosure in the financial statements that referred to the serious financial difficulties faced by the Council and group because its subsidiary, Inframax, was in serious financial difficulties and in breach of its borrowing covenants. In addition, we drew attention to the following disclosures concerning performance information:

- the impact of the reduction in the level of road renewals;
- the impact of the reduction in service levels across a range of activities; and
- the need to implement a sustainable approach to the operation and renewals of the Te Kuiti wastewater treatment plant.

Eden Park Trust Board

Financial statements year ended: 31 October 2009

We drew attention to the disclosure in the financial statements that referred to additional financing being needed to complete the stadium redevelopment at Eden Park and to ensure the ongoing viability of the Trust Board.

South Port New Zealand Limited and group (Environment Southland)

Financial statements year ended: 30 June 2010

We drew attention to the disclosure in the financial statements that referred to a provision for unforeseen repairs and maintenance. The provision did not meet the definition of a liability and should not have been recognised as such. However, the amount was not material to the financial statements as a whole.

TDC Holdings Limited and group (Tararua District Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to the uncertainties surrounding the going concern assumption. The validity of the going concern assumption depends on the group's bankers continuing to support the group and the ability of the group to meet its financial forecasts.

Infracon Limited (Tararua District Council and Central Hawke's Bay District Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to uncertainties surrounding the going concern assumption. The validity of the going concern assumption was dependent on the company's lender continuing to support the company and the company's ability to meet its financial forecasts.

Central Plains Water Trust (Selwyn District Council and Christchurch City Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to uncertainties surrounding the going concern assumption. The validity of the going concern assumption was dependent on the continued funding from Central Plains Water Limited and other sources. Central Plains Water Limited's continued funding was dependent on obtaining resource consents and obtaining further funding from existing shareholders or other sources.

Ferguson Brothers Limited (Selwyn District Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to uncertainties surrounding the going concern assumption. The validity of the going concern assumption was dependent on the directors' negotiations with the company's bankers regarding loans and the negotiations between the shareholders for recapitalisation of the company.

Inframax Construction Limited (Waitomo District Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to uncertainties surrounding the going concern assumption. The validity of the going concern assumption was dependent on the company's lender continuing to support the company and the company's ability to operate within its cash flow forecasts. We also noted a breach of the Local Government Act 2002 because the company did not prepare consolidated financial statements for the company and its subsidiary for the year ending 30 June 2010.

St James Theatre Charitable Trust (Wellington City Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to uncertainties surrounding the going concern assumption. The validity of the going concern assumption was dependent on whether Wellington City Council's proposal for the merger of the St James Theatre Charitable Trust and Group and the Wellington Convention Centre was approved by the Council following public consultation.

St James Theatre Limited (Wellington City Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to the uncertainties surrounding the going concern assumption. The validity of the going concern assumption was dependent on whether Wellington City Council's proposal for the merger of the St James Theatre Charitable Trust and Group and the Wellington Convention Centre was approved by the Council following public consultation.

New Zealand Mutual Liability Riskpool

Financial statements year ended: 30 June 2010

We drew attention to the fact that the going concern assumption had appropriately been used in preparing the financial statements because the Trustee of the Riskpool is able to levy members to cover any shortfall in equity in any fund under the terms of the Trust Deed.

Hurunui Holdings Limited (Hurunui District Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the company would cease trading and its assets and liabilities would be transferred back to Hurunui District Council by way of an imputed dividend.

Forever Beech Limited

Financial statements year ended: 31 March 2010

We noted the disclosure in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the company ceased trading in July 2009.

Forever Holdings Limited

Financial statements years ended: 31 March 2008 and 31 March 2009

We noted the disclosure in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the company and its assets were sold as part of the disposal of operations by the parent company.

Mana Tavern Limited

Financial statements year ended: 31 March 2010

We noted the disclosure in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the company will stop operations in the financial year ending 31 March 2011.

KB Irrigation Limited (Selwyn District Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the company was amalgamated with a fellow subsidiary under Part 13 of the Companies Act 1993 on 1 July 2010.

Selwyn Plantation Board Limited (Selwyn District Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because in April 2010 the shareholders approved the sale of all of the company's assets and return of the proceeds to shareholders.

Paragon Oil Limited

Financial statements year ended: 31 March 2010

We noted the disclosure in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the company was liquidated subsequent to 31 March 2010.

Port Westland Limited

Financial statements years ended: 30 June 2008 and 30 June 2009

We noted the disclosure in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the company was disestablished from 1 July 2009. We also noted the disclosure in the 2008 financial statements that the Board of Directors did not prepare a statement of intent for the year ended 30 June 2008 as required by section 64 of the Local Government Act 2002.

Puhoi Cemetery Board

Financial statements years ended: 31 March 2007, 31 March 2008, and 31 March 2009

We noted the disclosure in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Trustees have begun the process to have the cemetery vested in Rodney District Council.

Rangitikei Mayoral Relief Trust

Financial statements year ended: 30 June 2009

We noted the disclosure in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Trust was to be wound up and its assets and operations transferred to the Wanganui-Manawatu Regional Disaster Relief Fund Trust.

Eastern Bay of Plenty Mayoral Disaster Relief Fund Trust

Financial statements year ended: 30 June 2007

We noted the disclosure in the financial statements that referred to the disestablishment basis being used appropriately in preparing the statements because the Trustees had completed a process to wind up the Trust as at 30 June 2007.

Tauranga Moana Heritage Trust (Tauranga City Council)

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the operations of the Trust were wound up as at 30 June 2010.

Manukau City Council Sinking Fund Commissioners

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Commissioners of the Sinking Fund resolved to wind up the Sinking Fund on 31 October 2010.

Tauranga City Council Sinking Fund Commissioners

Financial statements year ended: 30 June 2010

We noted the disclosure in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the operations of the Sinking Fund were wound up as at 30 June 2010.

Greater Wellington Rail Limited (Greater Wellington Regional Council)

Financial statements year ended: 30 June 2010

We noted a breach of the Local Government Act 2002 because the Board did not adopt a Statement of Intent for the year ended 30 June 2010 as required by section 64 of the Act. We also drew attention to the disclosure in the financial statements that the Board did not prepare a Statement of Intent for the period beginning 1 July 2010.

Hamilton Properties Limited (Hamilton City Council)

Financial statements year ended: 30 June 2008

We noted a breach of the Local Government Act 2002 because the Board did not adopt a Statement of Intent for the year ended 30 June 2008 as required by section 64 of the Act.

Port Investments Limited and group (Greater Wellington Regional Council)

Financial statements year ended: 30 June 2010

We noted a breach of the Local Government Act 2002 because the Board did not adopt a Statement of Intent for the year ended 30 June 2010 as required by section 64 of the Act. We also drew attention to the disclosure in the financial statements that the Board of Directors did not prepare a Statement of Intent for the period ended 30 June 2010.

Pringle House Limited (Greater Wellington Regional Council)

Financial statements year ended: 30 June 2010

We noted a breach of the Local Government Act 2002 because the Board did not adopt a Statement of Intent for the year ended 30 June 2010 as required by section 64 of the Act. We also drew attention to the disclosure in the financial statements that the Board did not prepare a Statement of Intent for the period beginning 1 July 2010.

Yarrow Stadium Trust (New Plymouth District Council)

Financial statements year ended: 30 June 2010

We noted a breach of the Local Government Act 2002 because the Board did not adopt a Statement of Intent for the year ended 30 June 2010 as required by section 64 of the Act.

Titanium Park Limited (Hamilton City Council, Waipa District Council, Waikato District Council, Matamata-Piako District Council, and Otorohanga District Council)

Financial statements year ended: 30 June 2008

We noted a breach of the Local Government Act 2002 because the Board did not prepare a Statement of Intent for the year beginning 1 July 2008 as required by section 64 of the Act.

The North Shore Domain and North Harbour Stadium Trust Board (North Shore City Council)

Financial statements year ended: 28 February 2009

We noted a breach of the Local Government Act 2002 because the Trust failed to have a June balance date, as required by the Act.

Whakatane Airport Authority (Whakatane District Council)

Financial statements year ended: 30 June 2010

We drew attention to the disclosure in the financial statements that the Airport Authority did not prepare a Statement of Intent for the period beginning 1 July 2010.

Mangere Cemetery Board

Financial statements years ended: 31 March 2008 and 31 March 2009

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

Article 1
Auckland

The new Auckland Council began operations on 1 November 2010. It is now by far the largest local authority in New Zealand. As a unitary local authority, it combines the functions of a territorial and regional authority.

Unique governance and accountability

Auckland Council is also structurally different from other local authorities, with new roles for the mayor and interim chief executive, shared decision-making and accountability between the governing body and local boards, and substantial core business delivered through CCOs for which new governance and accountability arrangements are provided.

The establishment phase of the transition is complete. Auckland Council inherits the operations of the former councils and the decisions of the Auckland Transition Agency. It now needs to make the unique governance arrangements provided for by the reform legislation work effectively in practice.

Auckland Council has started to plan and make decisions in its own right. It has many matters that need to be addressed. Particularly significant matters it must address are:

- developing an overall strategic approach based on new democratic input;
- setting up practical arrangements for shared decision-making between the governing body and local boards, including setting a local board funding policy;
- identifying consistent objectives for Auckland Council and its CCOs,[1] including setting a policy for the accountability of significant CCOs;
- deciding an approach to rating for the first time from 2011/12, setting a single rating system from 2012/13, and moving towards the fully unified application of this single rating system (with the option of phasing this in during the following three years through a rates transition policy included in the 2012-22 long-term plan); and
- integrating the financial and funding policies it inherits from the former councils, and developing its own financial strategy for the long-term.

Good planning

While some aspects of Auckland Council are unique, effective governance and good planning will be fundamental in supporting what Auckland Council tries to achieve. In this sense, Auckland Council is no different from other local authorities.

1 We include Watercare Services Limited, which becomes a council-controlled organisation from 2012.

It will require an effective integrated programme of planning, which starts with the audited planning document[2] as an input. This programme will include:

- integrating underlying information – for example, the asset management plans – that it inherits from the former councils; and
- developing and completing:
  - its first spatial plan;
  - local board plans and agreements;
  - its first full-year annual plan (and setting transition rates) for 2011/12 and the long-term plan for 2012-22; and
  - statements of intent for each of its CCOs.

Our future involvement – including "review of service performance"

The Auckland reform legislation provides a new function for the Auditor-General. She must review, from time to time, the service performance of Auckland Council and each of its CCOs.

In our capacity as statutory auditor, we look forward to working effectively with Auckland Council as it consolidates the reforms. In this context, we will soon be completing the audits of the former councils, which are now dissolved. We are currently planning the audit for Auckland Council's first annual report for 2010/11, and we will be preparing for the audit of the long-term plan for 2012-22.

2 Prepared by the Auckland Transition Agency on Auckland Council's behalf, and serving as Auckland Council's annual plan for the first eight months and its long-term plan.

Article 2
Transparency, Accountability and Financial Management reform

The amendments to the Local Government Act 2002 (the Act), known as the TAFM reform, have now been passed into law with immediate implications for us all.

The TAFM changes see some requirements removed and some new disclosures required in annual reports and long-term plans. Overall, the process leading to the amended Act has reinforced and confirmed the importance of long-term planning by local authorities.

Our review of the amended Act has identified four points that we would like you to consider as you address the effect of the changes on your local authority.

The pre-election report

Local authority chief executives are now required to prepare a pre-election report to provide information and promote public discussion about the issues facing the local authority at the time of the election. This requirement adds a new external report to the set of documents that each local authority is required to produce.

In our experience, the success and ease with which a local authority produces such statutory reports is strongly linked to the quality of the internal systems that support the production of the report. Given the tight time frame in which it must be produced,[3] local authorities need to manage this carefully. To produce the report in an efficient and timely manner, you will need to have effective forecasting and reporting systems.

Financial strategy

The audits of the 2009-19 LTCCPs confirmed the view we had already expressed that the understanding and presentation of information related to financial strategy in local authority long-term plans could significantly improve.[4] Many local authorities did not present and explain financial strategies clearly enough to help communities provide informed input.

Given our view, we support the requirements related to financial strategy in the amendments to the Act. Equally, we consider it important to recognise the Act provides a minimum standard of disclosure. Mere adherence to the disclosure requirements does not necessarily mean a council has actually prepared a financial strategy. It does require integrated thinking – drawing on its vision for the future financial state of the council (including its financial targets) with the decisions it has made and the choices in front of it through the proposed long-

3 We note that there are some dispensations regarding the inclusion of current year information for those local authorities with populations below 20,000.

4 For further details on our views regarding financial strategy in the 2009-19 LTCCPs, refer to our report *Matters arising from the 2009-19 long-term council community plans*, which is available on our website www.oag.govt.nz.

term plan. From this, a council can distil and affirm its financial strategy through effective consultation with its community.

The financial strategy can then be presented as one of the "right debate" issues in the long-term plan, which clearly sets out the proposed financial path with any related options and implications. It also means a suitable strategy will be identified that enables effective reporting through the annual report.

We expect the soon-to-be-released SOLGM guidance on financial matters related to long-term planning to assist local authorities in addressing the financial strategy requirements of the amended Act and improve the understanding of financial strategy overall.

Water

The TAFM changes related to water services focus on allowing local authorities to enter into extended-length contracts for water services. The changes are intended to facilitate private investment in water services through the use of build, own, operate, and transfer (BOOT) schemes.

This change to the legislation opens up opportunities for local authorities to consider alternative procurement options for water services. As with any procurement process, it is important to complete a thorough investigation to consider the options available and the related implications, and to develop a robust business case to support any procurement proposal.

For further guidance and good practice information about procurement, please refer to our good practice publication released in June 2008.[5]

Reporting on performance information in the long-term plan

As part of the changes to the Act, sections 84(4)(c) and 94(1)(c) have been repealed. Previously, these sections required the audit opinion on the LTCCP statement of proposal and the final LTCCP to specifically comment on the quality of the performance framework. The repeal of these sections means that this is no longer required.

However, the performance framework remains an important component of every long-term plan. Other amendments to the Act set out a number of new requirements that confirm the importance of performance reporting, including mandatory performance measures to be applied by all local authorities.

For the purpose of clarity, we note that the repeal of these sections will not change the requirement for auditors to consider the performance framework as part of the audit of the long-term plan.

5 *Procurement guidance for public entities.*

Article 3
Long-term plan preparedness

From our discussions with many local authorities, we are aware that the preparation of the 2012-22 long-term plans is already under way. We are also in preparation mode as we consider the appropriate level of audit fees, and review our audit methodology for the 2012-22 long-term plan.

We are updating our audit methodology to reflect the results of our internal debrief after the 2009-19 LTCCP audits and the changes arising from the TAFM reforms. Overall, we consider that the current methodology is a sound basis for auditing the 2012-22 long-term plan. The review will result in some aspects being refined, leading to less audit work being required, and other aspects being strengthened.

As you start to prepare your 2012-22 long-term plan, you should consider our findings reported in *Matters arising from the 2009-19 long-term council community plans*. There are three key areas where we would like local authorities to continue to seek improvement in their planning documents.

Financial strategy

As noted in the TAFM article, we found that in the 2009-19 LTCCPs many local authorities did not present and explain financial strategies clearly enough to help communities provide informed input. In our view, a local authority's financial strategy should be presented to the community as a major issue. The TAFM reform includes a requirement for specific disclosures about the financial strategy of each local authority in the long-term plan. We support this requirement.

Continual improvement of asset management information

We expect local authorities to continue to improve their asset management plans and the related information about their assets. Good asset management planning is needed to produce reliable plans and estimates, and for the community to gain confidence that their local authority will continue to deliver the services they require and use their assets sustainably.

Long-term plan summaries

We also encourage you to plan for the preparation of your long-term plan summaries. The long-term plan summary is a key document to engage the community in debate about the choices available to it and the implications of those choices.

Article 4
The complete reporting of performance

We have consistently held the view that effective reporting of a local authority's performance can only be achieved if it encompasses both financial and non-financial performance. In 2008, we reported to Parliament that:

> *A core purpose of performance reporting is to provide for public accountability for the responsible use of public resources and regulatory powers, including demonstrating that public services are being delivered effectively and efficiently. Entities can be truly accountable only if they are transparent about both their financial and non-financial performance and the relationship between the two.*[6]

Our June 2008 report to Parliament reflected our concern that the public sector as a whole still needed to report purposively on all aspects of its performance. In the local government sector, the audit of LTCCPs provided the opportunity for these matters to be raised with the local government sector. The *appropriateness* of the proposed performance frameworks for supporting effective performance reporting – whether financial or non-financial – was assessed.

This was reinforced by Parliament, which asked us to audit LTCCPs and form an opinion on:

> *The extent to which the forecast information and performance measures provide an appropriate framework for the meaningful assessment of actual levels of service performance.*[7]

For the year ended 30 June 2010, we aligned our opinions on local authorities' annual reports with the same standard – that the annual reports show actual performance and not just performance against what was planned. The sector has reported to the latter, lower standard since 1989: there has often been minimal reporting on actual performance.

Our auditors were required to not only report on whether a local authority's annual report reflected its performance for the year but to also form an opinion on whether the annual report's use of measures from the 2009-19 LTCCP "provided an adequate basis for the informed assessment" of the local authority's actual service performance. The expectation was for local authorities to report their actual achievements and, where actual performance was not adequately reflected through the planned measures, for additional comment and information to be provided.

The audit work focused on:

- confirming that the performance framework remained appropriate, taking into account any changes in activity since the 2009-19 LTCCP was prepared;
- the quality of the overall "story" the performance report told;

6 *The Auditor-General's observations on the quality of performance reporting* (June 2008).

7 Section 94(1)(c) of the Local Government Act 2002.

- the reliability and accuracy of the reporting;
- the completeness of the reporting against the performance framework outlined in the LTCCP; and
- compliance with relevant legislation (in particular, Schedule 10 of the Act).

Overall, local authorities made considerable effort to improve their service performance reporting and report their actual achievements for the year. The features of those local authority annual reports that stood out included:

- a high-level summary of performance achieved and the challenges encountered during the year, complemented by disclosure of what effect the challenges have had, or are envisaged to have, on future years' levels of service, outcomes, and well-beings (local authorities that had better disclosures also outlined their planned response to those challenges);
- commentary that reflected positive achievements and unfavourable results;
- information that was presented in an inviting and visually appealing layout with easy navigation around the document;
- a logical flow of information within groups of activities and/or individual activities on the outcomes, impacts, levels of service, performance measures and targets, results, and supporting commentary on the results;
- annual reports that used simple language to interpret technical concepts;
- financial and non-financial information that was presented together and supported with comments to provide context; and
- comparative information that looked at trends and that was supported with commentary to provide readers with a sense of progress towards outcomes and strategic objectives.

We issued three qualified audit opinions on service performance reports for 2009/10. In all three cases, the work of the auditor was limited as data had not always been collected, or could not be supported, for significant performance measures.

We will continue to seek improvement in reporting of performance information. Disclosing and explaining significant variations from forecast and prior year actuals, as well as the effect on the long-term provision of services by a local authority, is one area that we consider local authorities can and should continue to improve on.

We encourage you to continue to improve your reporting of actual service performance in next year's annual report, specifically having regard to recommendations made by auditors in management letters. We also encourage you to consider these messages when preparing the 2012-22 long-term plans.

Article 5
Local authority elections 2010

Requests for advice and enquiries to the Auditor-General have historically tended to increase in the period leading up to local authority elections, and this can continue for a period after the elections. Most requests are about the application of the Local Authorities (Members' Interests) Act 1968 (the Members' Interests Act) to candidates for election who have contracts with the local authority. We have also received requests in the past to inquire into:

- communication in the pre-election period; and
- decision-making by councils after the election.

For the 2010 elections, we dealt with a steady stream of questions from election candidates about the Members' Interests Act. We were pleased that there were fewer concerns raised than in previous elections about communication and none so far about decision-making. We summarise the main issues below.

Election candidates and the Local Authorities (Members' Interests) Act 1968

The Members' Interests Act contains some complex rules for election candidates. The basic rule in section 3 of the Members' Interests Act is that a person cannot be elected to a local authority if they have a current contract with the authority under which they will be paid more than $25,000 in a financial year. There are several exceptions in the Members' Interests Act – for example, if:

- the obligations under the contract have been completed and the price is already fixed; or
- the obligations under the contract have not been completed, and the amount to be paid is not fixed, but the contract is for less than 12 months.

If these exceptions do not apply, a person can only be elected if they relinquish the contract with the local authority's agreement within a month of being elected. This is not always suitable for the candidate or the authority.

We received several requests from candidates for the 2010 elections to give approval for existing contracts with local authorities. In some instances, candidates were referred to us by local electoral officers. However, the Auditor-General has no power to give such approvals.

In most instances, we found that the candidates were not disqualified from being elected because payments under the contract were in fact less than $25,000 or because one of the exceptions in the Members' Interests Act applied.

We have called for the Members' Interests Act to be reviewed, including reviewing whether these rules for candidates should be retained or updated. We will need to ensure that candidates and electoral officers have the correct information for the next elections if these rules are still in place.

We also received several questions from candidates for local boards in Auckland about the contracting rule. Local boards are subject to the Members' Interests Act as if they were local authorities, but the extent of contracting activities involving local boards is not yet clear. It appears that local boards will not enter contracts in their own right, but the contracting rule would apply if the Auckland Council were to enter into a contract with a local board member and the contract is on behalf of the local board.

Communication in the pre-election period

I am pleased to note that we received far fewer complaints about council communications in the three month "pre-election" period before the 2010 elections than for the 2007 elections. We do not have any particular role in this area, but we did issue good practice guidance in 2004.[8]

Our guidance in this area, although it pre-dates more modern ways of communicating such as Facebook and Twitter, contains some simple principles that we consider relevant – namely, that:

- council staff need to maintain their neutrality;
- the public funds that councils administer should not be used for electioneering or to benefit one candidate over another;
- councillors are still in office during the election campaign and remain responsible for the activities of the organisation; and
- ordinary business has to continue despite the election, which includes ongoing communication with the (voting) public.

Our guidance encourages each local authority to adopt its own policy for managing communication during election periods.

We reminded the sector in our annual report to Parliament[9] before the 2010 elections of some of the issues that resulted in complaints to the Auditor-General in the 2007 elections. They included:

- public events and launches;
- councillor and mayoral columns and other communication channels; and
- communication from council staff.

8 *Good Practice for Managing Public Communications by Local Authorities* (2004).

9 *Local government: Results of the 2008/09 audits.*

We are pleased to note that councils appear to be handling these issues well, if the lack of complaints to us during the 2010 elections is anything to go by.

The few questions we did get this year were about councillor's columns or commentary on their activities in council newspapers or websites, and about councillors using their council email address or council email lists for electoral communications. Our advice in this area is that these communication channels can create risk during an election period. Many councils have policies that suspend such communication during a defined pre-election period. This is a very simple way of removing the risk.

The media is interested in this area, and we are sometimes asked to comment on particular issues. We tend to respond to such questions by stating that our guidance is good practice only, that it is for each local authority to develop and apply its own communication guidelines, and that we do not have any role in enforcing the guidelines. In short, we expect that councils will properly manage these issues.

Decision-making by councils after the election

After the 2007 local authority elections, we received several complaints about newly elected councils quickly deciding to change or reverse decisions of the previous council. We reported on the approach we took to these complaints in a previous report to the sector.[10]

These complaints raise important issues about the relationship between the decision-making requirements of the Local Government Act and the democratic and political context of local authority decision-making. They can also raise concerns about bias (predetermination) where candidates have expressed strong views on issues when campaigning for office.

In 2007, we concluded that the relevant council was able to make the decision under the Act. However, the councils could have been more transparent in their decision-making process. This would have enabled the community to more easily see and understand the basis on which the council was making the decision.

We thought that similar issues may arise after the 2010 elections, but we have not yet received any complaints or inquiry requests in this area.

On the subject of bias, councillors will be judged on how they conduct themselves once elected. They need to show that they have an open mind despite what they said before being elected, and that they will consider other viewpoints and submissions from the public where consultation has occurred. They will be judged

10 *Local government: Results of the 2007/08 audits* (June 2009), Part 5.

by their attentiveness and conduct at relevant meetings, and by evidence that they have read and considered submissions rather than having a predetermined view that they will not change. We do not have any role in considering complaints in this area unless financial interests are involved, but it is raised with us fairly frequently.

Article 6
The Auditor-General's inquiry role

Our primary function is to audit all public entities in the public sector – of which there are about 4000. We have some discretionary capacity to examine in more detail issues of concern that are raised with us, but there are limits to that capacity. We receive a large number of requests for inquiries each year. We receive more requests to inquire into matters in the local government sector than in other parts of the public sector. We received 188 inquiry requests related to local government in 2009/10, and have received a further 59 requests from 1 July 2010 to date.

The requests we receive show that many people do not understand our role and its limits. For example, we get a wide range of requests asking us to:

- intervene in decision-making by local authorities and halt or reverse decisions;
- make a judgement about the legality of actions; or
- review individual decisions with which the correspondent disagrees.

In many of those cases, we explained that we do not have the authority to do what was sought and suggested that the complainant raise the concern directly with the local authority to allow the authority the opportunity to respond.

Our general inquiries workload spans many parts of local government activity. Common topics of complaint include application of rating policies, procurement, expenditure on large community facilities such as events centres, and decision-making processes for changing the way core services are delivered – for example, solid waste collection.

Although the concerns with the decision and the process may be genuine, in practical terms, people often hope that asking us to inquire may stall or stop the process. We cannot do this, as the Auditor-General has the power only to inquire and report – not to intervene.

We are working to improve the information we make available about our role and approach to requests for inquiries, so that it is easier for people to understand when we can usefully get involved and why.

In 2009/10, our significant local government inquiries were into the loss of money by the Auckland Regional Council for the LA Galaxy football match at Mt Smart Stadium, and Auckland City Council footpath contracts. More recently, we inquired into the termination payments for the chief executives of the Auckland local authorities that dissolved on 1 November 2010. We summarise this inquiry below.

Inquiry into payments to chief executives of dissolving local authorities in Auckland

We inquired into the termination payments for the chief executives of the eight Auckland local authorities that were dissolved on 1 November 2010 as part of the transition to the new Auckland Council.[11] We did this inquiry at the request of the Minister of Local Government. The inquiry was done in "real time". We looked at the payments before they were made, rather than after.

Our expectations included that:

- payments would be made in keeping with contractual entitlements and with the Auckland transitional legislation, and be properly authorised;
- where possible, the local authorities and the Auckland Transition Agency would work together to minimise the costs of termination arrangements to ratepayers; and
- chief executives and other employees would be given notice in a timely way, to avoid or limit the cost of payments in lieu of notice.

Our expectations were largely met. Of the total payments, almost all were made under contractual arrangements and in keeping with the Auckland transitional legislation. However, we considered that payments with a total cost of $42,000 were not authorised and did not need to be made. These were payments for untaken professional development and to assist with career transition.

We also considered that the total cost of payments in lieu of notice to chief executives of $263,722 was significant. In our view, the Auckland Transitional Authority and the local authorities could have done more to reduce or avoid these costs. The need to reduce or avoid these payments should be considered in any future restructuring of this kind.

Other inquiry requests

We were asked to inquire into the decision by the Queenstown Airport Corporation to issue shares to Auckland International Airport Limited. The decision had led to significant public debate in the Queenstown district. Particular concerns raised include a lack of consultation with the Queenstown community and whether the transaction represents the best value for ratepayers.

We have an ongoing interest in governance and accountability arrangements between councils and CCOs, and an interest in commercial decisions made in a local government context. These matters raise questions of interest for the local government sector as a whole.

11 The inquiry report is available on our website: www.oag.govt.nz/2010/auckland-ceos-payments.

We decided to inquire into the Queenstown airport matter. However, we put our inquiry on hold because the opponents have challenged the relevant decisions in the High Court. The sector will no doubt watch the legal proceedings with interest.

Case law

The case law on the decision-making provisions in the Act is now more settled after the Court of Appeal decision in the *Whakatane District Council v Environment Bay of Plenty* litigation. The Court took a strict approach to interpreting the decision-making provisions in Part 6 of the Act. It found that Environment Bay of Plenty could not produce evidence to show that it had properly considered community views at all stages of the decision-making process, as required by section 78(2) of the Act. Since the Court of Appeal case, section 78(2) has been repealed as part of the TAFM reforms. However, our understanding is that the Court of Appeal's approach to assessing compliance remains relevant despite the repeal of section 78(2).

Councils need to take care to document their decision-making processes and how they exercise their discretion about the nature and extent of consultation.

Article 7
Local Authorities (Members' Interests) Act 1968

We included a comprehensive discussion about the Local Authorities (Members' Interests) Act (the Members' Interests Act) in a report to Parliament in June 2010.[12] In that report, we noted that our 2009 investigation into four councillors from Environment Canterbury[13] had generated considerable interest and concern in the sector.

The main issue in the Environment Canterbury investigation was whether the interests of the councillors could be regarded as interests in common with the public. The type of user charges being proposed and that the subset of the population to whom they would apply was so small and readily identified were both significant.

We are aware that our decision in this case has caused some concern in the sector. Since then, we have received many requests for advice and guidance about how to apply the "interest in common" test in the Members' Interests Act. These requests have been about matters such as particular targeted rates that affect some groups of ratepayers and even fees that affect large numbers of people, such as dog registration fees. We consider that this was partly because the financial interests of two of the councillors in the Environment Canterbury case were quite small, and this made people take a very cautious approach.

In most of the requests received, we concluded that targeted rates or user pays charges that affected councillors as part of a group were not problematic. The group represented a reasonable proportion of the relevant population and was defined in general terms. We considered that the interests of the councillors concerned were "in common with the public" and they could therefore participate.

By contrast, in the decision about Environment Canterbury, the affected groups were quite specifically identified and were a small subset of the general population, and the effect of the charge on them was different in kind and extent from the effect on others.

Our general approach with the Members' Interests Act is a strong focus on providing guidance and assistance to help councillors and council staff to do the right thing, rather than investigate potential breaches after the event. We updated our guide to the Members' Interests Act in time for the 2010 local authority elections,[14] and took part in training sessions for new councillors around the country organised by Local Government New Zealand (LGNZ) and the Auckland Council. Our revised guide is clear on the principles and factors to apply when

12 "How the Local Authorities (Members' Interests) Act 1968 operates", in *Local government: Results of the 2008/09 audits* (June 2010).

13 *Investigation into conflicts of interest of four councillors at Environment Canterbury* (December 2009).

14 *A Guide to the Local Authorities (Members' Interests) Act* (October 2010).

working out whether there is a financial interest that might prohibit a councillor from participating in council decisions. It also makes clear, for those who wish to apply to us for approvals to participate, what information we need to process the application promptly.

We are now of the view that it would be better to review the Members' Interests Act as a whole, from a first principles perspective. Its basic approach is out of step with other public sector legislation, and the practical difficulties and compliance costs of the current regulatory approach are becoming more acute.

With the president of LGNZ, we wrote to the Minister of Local Government in May this year, seeking his support for a first principles review of the Members' Interests Act. We would appreciate the sector's support for this.

Non-financial conflicts of interest

Although we do not have the same formal role with non-financial conflicts of interest, we are regularly asked for guidance and comment on good practice for managing these issues. Our updated guide to the Members' Interests Act contains a chapter on more general conflicts of interest and bias questions that arise regularly in the local government sector.

The suggestion of a non-financial conflict of interest can arise for a number of reasons, including because the councillor:

- is involved in another organisation that has an interest in a matter before the council (and so may have a conflict of roles);
- has a close family member who is involved in a council matter, such as a submitter on a plan; or
- has strong political views on the issue (suggesting bias or predetermination).

Members of the public, local authority staff, and other councillors regularly raise concerns of this kind with us.

In our experience, most council staff are able to provide informed and practical advice to councillors on these issues. If staff have major concerns about a particular current or potential issue, we encourage them to get specific legal advice rather than to seek general guidance from us. That said, we understand that, at times, staff find it helpful to talk an issue through in general terms. In such cases, we are happy to act as a sounding board, and to provide general comments on the approach being developed.

Article 8

Accounting for leaky homes liabilities

Accounting for the effect of leaky homes has been a significant issue for the local government sector for more than five years. We have reported on this issue for the last three years. We have particularly focused our reporting on how the six local authorities[15] most significantly affected have accounted for the liabilities they face – liabilities related to claims that have been lodged and claims that are expected in the future.

There has been significant concern throughout the local government sector about the current and future effect of leaky home claims on the finances of local authorities – and consequently on ratepayers. This has been balanced with an acknowledgement that all New Zealanders need to have a means to resolve leaky home issues and therefore to be able to live in healthy and safe homes.

In the 2010 Budget, the Government announced its intention to set up a new financial assistance package to help homeowners repair their leaky homes faster. The package will see the Government meet 25% of homeowners' agreed repair costs, local authorities contribute 25%, and homeowners fund the remaining 50%.

The Government is working on the specific claim process related to the package. It expects this to be operational from early to mid-2011.

Whether a local authority has formally agreed to participate in the new package or not, accounting for the liability faced for leaky homes remains very important. The new package does not change the accounting requirements for leaky home liabilities.

Each local authority must assess its exposure to liabilities for leaky homes. There are three categories of claims. These are claims that have been investigated and reviewed and the total cost to the local authority confirmed, claims lodged where the cost and the local authority's share of the liability is still to be confirmed, and claims that might be made against a local authority between now and the end of the statutory limitation period. Generally, an actuary will need to calculate the liabilities in the last two categories. The applicable accounting standard[16] assumes that the liabilities in the first and second categories will be accounted for as an actual liability. Those within the third category should also be accounted for as an actual liability if the actuarial assessment is reliable enough. Otherwise, it should be disclosed as a contingent liability.

15 In 2007, when we first reported on this matter, the six most significantly affected local authorities were Auckland City Council, Christchurch City Council, North Shore City Council, Rodney District Council, Waitakere City Council, and Wellington City Council. Based on our review of 30 June 2009 annual reports, Manukau City Council and Tauranga City Council had claims higher than Rodney District Council.

16 New Zealand equivalent to International Accounting Standard 37: *Provisions, Contingent Liabilities and Contingent Assets*.

As we have noted in our previous reporting on this issue, identifying and assessing liabilities for both the second and third categories has proved complex in practice, even with the professional expertise of an actuary. As a result, a significant proportion of leaky home liabilities have been accounted for as contingent liabilities with varying degrees of specificity regarding the amounts. We do not anticipate that the new package will significantly simplify this situation. However, we encourage you to work with your actuaries to use the increasing volume of claims history and to disclose in the financial statements and the contingent liability note disclosures in your annual report more accurate information about the leaky home liabilities you face.

In calculating the leaky home liability, each local authority must also consider how the provision for this liability has been allowed for in the 2009-19 LTCCP and whether the calculation, in light of the new package, indicates a significant change. If it does, it could trigger a long-term plan amendment. This will depend on the approach each local authority has taken in the past and therefore must be considered by each local authority with reference to its individual circumstances.

In addition, we encourage you, as you begin developing the 2012-22 long-term plan, to work towards building into those financial forecasts appropriate assessments of the liabilities that are ahead. The long-term plan must include appropriate assumptions and uncertainties/risks regarding how the forecast liability has been estimated. Importantly, it must also include appropriate funding mechanisms to meet the forecast liability.

Article 9
Freshwater quality performance audit

We are part way through a performance audit that will aim to answer whether four regional councils are effectively maintaining and enhancing the quality of freshwater in their regions. Our broad areas of inquiry are:

- What do the regional councils know about the quality of freshwater in their regions – are their methods for gathering information about, and monitoring the quality of, freshwater effective?
- How are the regional councils using the information they gather to improve their freshwater management practices (adaptive management)?
- How do the regional councils respond to any known risks using regulatory and other methods?
- Are the regional councils controlling land use effectively to ensure that freshwater quality is maintained and enhanced?
- Are the changes the regional councils have made leading to improved freshwater quality in their regions?

We are also reviewing good management practices related to freshwater quality, so we can identify and highlight ways to improve freshwater management at the operational and local level.

We have largely completed our fieldwork in Southland and Taranaki, and will be discussing our preliminary findings with those regional councils early next year. We then plan to consider freshwater quality in the Waikato and Manawatu regions.

The National Institute for Water and Atmospheric Research is assisting us by reporting on the methods used by the regional councils and state of environment information for water quality in the four regions during the last ten years.

Publications by the Auditor-General

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

- The Auditor-General's Auditing Standards
- Central government: Results of the 2009/10 audits (Volume 2)
- District health boards: Learning from 2010-13 Statements of Intent
- Central government: Case studies in reporting forecast performance information
- Matters arising from Auckland Council's planning document
- Central government: Results of the 2009/10 audits (Volume 1)
- How the Department of Internal Affairs manages spending that could give personal benefit to Ministers
- Sport and Recreation New Zealand: Improving how it measures its performance
- Department of Internal Affairs: Administration of two grant schemes
- Inquiry into payments to chief executives of dissolving local authorities in Auckland
- Guidance for members of local authorities about the Local Authorities (Members' Interests) Act 1968
- Annual Report 2009/10
- Effectiveness of the Get Checked diabetes programme
- Spending on supplies and services by district health boards: Learning from examples
- New Zealand Transport Agency: Information and planning for maintaining and renewing the state highway network
- District health boards: Availability and accessibility of after-hours services
- Matters arising from the 2009-19 long-term council community plans
- Inquiry into the Plumbers, Gasfitters, and Drainlayers Board
- Inland Revenue Department: Managing child support debt

Website

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