Controller and Auditor-General
Tumuaki o te Mana Arotake

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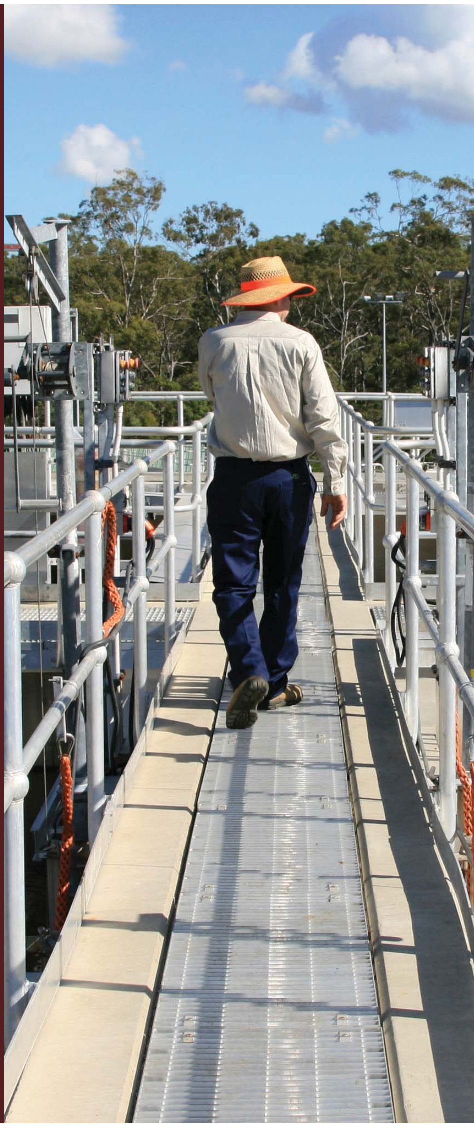
Parliamentary paper

Local government: Results of the 2011/12 audits



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Local government: Results of the 2011/12 audits

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Auditor-General's overview

The 2011/12 year was a demanding one for local authorities. They had to prepare three-yearly long-term plans for 2012-22 and then swiftly complete the 2011/12 annual reports, among other challenges.

Only one local authority did not adopt its annual report within the statutory time frame. This is a significant improvement compared to previous years. Timely reporting is an important part of accountability.

The 2012/13 year will see local authorities meeting new disclosure requirements that will affect the content of their annual reports. Also, in the next few years, local authorities and other public entities will adopt a new financial reporting framework. Although the new approach will not be a "silver bullet", we expect the resulting financial reports will provide more useful accountability information and more straightforward reporting requirements, particularly for smaller local authorities.

This report continues our approach to assessing long-term financial performance and the potential for financial risk and uncertainty using a set of indicators. I consider that this approach has merit but is not perfect – it is just one way to view financial prudence and financial sustainability. I welcome comments on how our approach can be refined.

We note in this report that local authorities have generally good anti-fraud frameworks, but they cannot be complacent. Local authorities and all public entities need to continue to be vigilant in the current economic climate if New Zealand is to maintain our good record of keeping fraud at bay.

Also significant for the local government sector, our Office reported this year on the creation of Auckland Council and group. Although there were many opportunities for things to go wrong, the transition so far has largely gone well.

During 2011/12, we also published our first report on the Canterbury recovery, which highlighted the challenges that local authorities face as a result of a significant disaster. Every local authority needs to seriously consider how it manages assets, procurement practices, insurance, and governance and accountability arrangements.

Lyn Provost
Controller and Auditor-General

21 March 2013

Part 1

Introduction

1.1 The Public Audit Act 2001 requires the Auditor-General to report on matters arising from carrying out her functions and duties and exercising her powers.

1.2 In 2012, we audited the 2011/12 annual report of each of the 78 regional and territorial local authorities and the annual reports of council-controlled organisations (CCOs) and other subsidiaries of local authorities. We also audit other local government-related entities, including energy companies, cemeteries and administering bodies, and licensing trusts. The audit results of central government entities are set out in a separate report.

Timeliness of annual reporting

1.3 Local authorities' annual reports provide information that helps communities to assess how authorities have performed. This year's results show an improving trend of local authorities meeting their legislative obligations.

1.4 In 2011/12, only one local authority did not adopt its annual report by the statutory deadline, compared with eight in 2010/11 and seven in 2009/10.

1.5 Three local authorities did not provide their community with audited summaries of their annual report within one month of adopting their annual report. This is a breach of the statutory deadline.

1.6 Although more local authorities met their statutory obligations for 2011/12 than for 2010/11, we are still concerned that breaches happened. Local authorities that miss the statutory deadline fail to give their stakeholders and community the timely information that they are entitled to receive.

Financial results in the 2011/12 annual reports of local authorities

1.7 Consistent with last year, we have reported our observations on the financial performance and financial position of local authorities, based on information in their audited financial statements.

1.8 Historically, our approach had been to consider the financial data, primarily based on trends, without a method for interpreting, analysing, and assessing the information. However, in this report, we continue with the approach in our December 2012 report, *Matters arising from the 2012-22 local authority long-term plans* (the long-term plan report), where we used a set of indicators to assess financial performance and potential for financial risks and uncertainty.

1.9 Using these indicators, we conclude that local authorities are:

- operating sustainably and appear to be resilient to short-term uncertainties; and
- improving the accuracy of delivery against their forecasting.

1.10 In 2011/12, local authorities had combined operating expenditure of $8.1 billion and capital expenditure of $2.3 billion. Local authorities' combined operating revenue was $8.3 billion, of which revenue from rates made up 55%.

1.11 Local authorities had combined debt of $8.5 billion as at 30 June 2012. This is an increase of nearly $0.9 billion on the June 2011 debt level. Most of the increase related to Auckland Council.

Financial reporting changes

1.12 From 2012/13, the transparency, accountability, and financial management (TAFM) amendments to the Local Government Act 2002 (the Act) will affect the content of local authorities' annual reports. Among the changes are additional disclosure requirements, including funding impact statements for each group of activities and for the local authority as a whole, and disclosures on internal borrowing and reserves.

1.13 In the next two to three years, local authorities, their CCOs, and other public entities will move to a new "multi-standards approach" for financial reporting. The External Reporting Board, which is responsible for preparing and setting standards for financial reporting, is leading this work. The approach distinguishes different tiers of reporting for classes of entities, with each having different financial reporting requirements. The changes are expected to increasingly provide useful accountability information to ratepayers and other users of public entity financial statements.

Activities to reduce and manage greenhouse gases

1.14 During the last three years, we have collected and analysed how local authorities measure, reduce, and offset their greenhouse gas emissions. Although there is no explicit requirement for local authorities to measure or reduce the environmental effects of their activities, some have chosen to measure emissions from their activities, consider their waste management practices, or mitigate the environmental effects if it makes business sense to do so.

1.15 Since 1 January 2013, local authorities with waste disposal facilities have had to take part in the New Zealand Emissions Trading Scheme (the ETS). However, small and remote landfills have been granted an exemption from all surrender and reporting obligations under the emissions trading scheme. Since January 2013, local authorities with landfills that do not meet the exemption criteria have been required to pay a price for each tonne of methane emitted. As a result, local authorities may have increased user changes and investigated ways to reduce their liabilities, or focused on minimising waste.

1.16 We continue to see about one third of local authorities measuring their greenhouse gas emissions, but some of these local authorities have no plans to reduce their emissions or targets for reducing their emissions. Overall, it has been difficult to discern strong trends or clearly identifiable effects of the emissions trading scheme, although some local authorities have a strong commitment to environmental sustainability and are acting in keeping with this.

Managing leaky building liabilities

1.17 As in previous years, we have reported on the effect of leaky building liabilities, which is still a major matter for many local authorities. Auckland Council, Christchurch City Council, Tauranga City Council, and Wellington City Council are the local authorities most affected.

1.18 The challenge for local authorities in managing these liabilities has increased since we reported last year. This is a result of the Supreme Court ruling in October 2012 that local authorities' duty of care extends to all residential and commercial buildings.

1.19 In general, local authorities carried out significant reviews of their provisions for their leaky building liability when they prepared their 2012-22 long-term plans. Of the four local authorities that we considered, the combined provision for leaky building liability as at 30 June 2012 decreased by a net $32 million to $482 million compared with June 2011. This was mainly attributed to a decrease of $39 million in Auckland Council's provision.

Our work in local government

1.20 In Parts 8, 9, and 10, we outline our performance audit work, other work completed by the Office, inquiries, and our areas of future focus in local government. Among other matters, we intend to consider the governance and accountability of CCOs and other subsidiaries of local authorities.

1.21 We continue to receive many requests for inquiries into local government matters from members of Parliament, public entities, and the public.

Non-standard audit reports

1.22 We issued 647 audit reports for local government entities in 2012 – 559 standard audit reports and 88 non-standard audit reports. This figure does not include the 77 audit reports we issued on local authorities' 2012-22 long-term plans, which we have reported on in our long-term plan report.

1.23 This year, some audit reports included "emphasis of matter" and "other matter" paragraphs – drawing readers' attention to disclosures on financial uncertainty/going concern or use of a disestablishment basis to prepare the financial statements. We issued non-standard audit reports for some public entities where we could not get enough assurance about the completeness of revenue and/or expenditure. Most of these were small public entities, such as cemeteries and administering bodies, but 21 were CCOs.

1.24 We issued disclaimers of opinion on seven entities, including Christchurch City Council and Group. With Christchurch City Council and Group, we were unable to form an opinion on the Group's financial statements because of the significant damage to assets caused by the Canterbury earthquakes.

Part 2
Timeliness in annual reporting

2.1 In this Part, we set out:

- the statutory requirements for adopting and publicly releasing an annual report; and
- when local authorities:
  - adopted their annual reports – and the reasons why some local authorities were late in doing so;
  - publicly released their annual reports; and
  - publicly released their audited summary annual reports.

2.2 Annual reports provide information that helps communities to assess how well their local authorities perform. For communities to do this effectively, the information must be comprehensive and timely.

2.3 Each year, we look at how timely local authorities' annual reports have been.

2.4 The Act requires each local authority 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;
- make publicly available its annual report within one month of adopting it; and
- release an audited summary of the annual report within one month of adopting the annual report.

2.5 The local authority decides when to prepare and publish the audited annual reports and summaries, within the timing requirements of the Act.

Adopting annual reports

2.6 For 2011/12, only one authority missed the deadline to complete and adopt its audited annual report within four months after the end of the financial year, an improvement on the previous two years.

2.7 Figure 1 shows the dates when our audits of local authorities were completed, which gives an indication of when local authorities were able to adopt their annual reports.

Figure 1
When local authority audits for 2008/09, 2009/10, 2010/11, and 2011/12 were completed

Period in which the audit was completed	Number completed during this period			
	2008/09	2009/10	2010/11	2011/12
Within 2 months after the end of the financial year	2	2	2	1
Between 2 and 3 months after the end of the financial year	11	22	12	15
Between 3 and 4 months after the end of the financial year	63	46	56	61
Subtotal: number meeting statutory deadline	**76**	**70**	**70**	**77**
Percentage of local authorities meeting statutory deadline	*99%*	*89%*	*90%*	*99%*
Between 4 and 5 months after the end of the financial year	1	4	2	1
More than 5 months after the end of the financial year	0	3	4	0
Not issued as at 31 January	0	0	2	0
Total	**77***	**77***	**78**	**78**

* We excluded the former Auckland local authorities in the 2008/09 and 2009/10 totals but included Auckland Council in 2010/11 and 2011/12. Auckland Council prepared a report for the eight months ended 30 June 2011 and had to meet the same statutory time frames as other local authorities.

2.8 One local authority failed to meet the statutory deadline for 2011/12, eight failed to do so for 2010/11, and seven for 2009/10. The local authority that failed to meet the statutory deadline for 2011/12 had met the deadlines for 2010/11 and 2009/10.

2.9 We are disappointed that, despite better timeliness overall, one local authority missed the deadline. This failure highlights the need for local authorities to know – and have appropriate procedures and resources to meet – their statutory obligations.

2.10 In line with what happened in 2010, many local authorities will want to adopt their 2012/13 annual reports before the October 2013 local body elections. Being able to adopt an annual report early depends on how well a local authority plans and prepares for it.

Releasing annual reports to the public

2.11 We looked at when local authorities released their annual report to the community. The Act allows up to one calendar month between when a local authority adopts the annual report and when it releases that report. Figure 2 shows how well local authorities met this deadline.

Figure 2
When local authorities released their annual reports for 2008/09, 2009/10, 2010/11, and 2011/12

Time after adopting annual report	Number of annual reports released			
	2008/09	2009/10	2010/11	2011/12
0-5 days	32	23	25	36
6-10 days	10	6	8	9
11-20 days	10	21	10	13
21 days to one month	24	22	30	19
Subtotal: Number meeting statutory deadline	**76**	**72**	**73**	**77**
Percentage of local authorities meeting statutory deadline	*99%*	*94%*	*94%*	*99%*
Number not meeting statutory deadline	1	5	5	1
Total	**77**	**77**	**78**	**78**

2.12 One local authority missed the one-month deadline for releasing its annual report to the community. The local authority that failed to meet the statutory deadline for 2011/12 had met the 2010/11 and 2009/10 deadlines.

2.13 Most local authorities publish their annual report on their website. In our view, local authorities should be able to publish their annual reports on a website within a few days of adopting their reports. We expect all local authorities to be able to achieve this.

2.14 Compared with previous years, more local authorities are releasing their annual report soon after adopting it.

Releasing summary annual reports to the public

2.15 We reviewed the timing of the release of audited summaries of annual reports. Releasing an audited summary is an important part of a local authority's accountability to its community. The summary is the most accessible and understandable information for most readers, and the easiest document to circulate and make widely available.

2.16 Figure 3 shows that, compared with the previous three years, there was a slight increase in 2011/12 in the number of local authorities that made summaries of annual reports available within the statutory deadline of one month after adopting the annual report.

Figure 3
When local authorities released their audited summary annual reports for 2008/09, 2009/10, 2010/11, 2011/12

Time after adopting annual report	Number released			
	2008/09	2009/10	2010/11	2011/12
0-5 days	18	6	38	21
6-10 days	6	5	12	7
11-20 days	16	22	15	12
21 days to one month	26	38	7	35
Subtotal: Number meeting statutory deadline	**66**	**71**	**72**	**75**
Percentage of local authorities meeting statutory deadline	*86%*	*92%*	*92%*	*96%*
One month to 40 days	10	3	2	1
41- 50 days	0	0	0	1
51-60 days	0	1	0	1
More than 60 days	1	2	4	0
Total	**77**	**77**	**78**	**78**

2.17 Three local authorities did not provide their community with audited summaries of their annual report within one month of adopting their annual report. All of these local authorities had met the deadline for 2010/11.

2.18 As with the annual report, local authorities know they must produce a summary annual report. We consider that local authorities need to project-manage how they produce and publish their summary annual report.

Part 3
Financial results in local authorities' 2011/12 annual reports

3.1 In this Part, we summarise the financial results from the 2011/12 annual reports of local authorities, focusing on operating revenue, rates revenue, operating expenditure, capital spending, and debt. Our interest is in what externally available financial information reveals and what the results show over time and compared to forecasts.

3.2 We collected all the information that we use in this Part from the audited financial information contained in annual reports for 2011/12. There are 78 local authorities – territorial councils (city, district, and six unitary councils) and regional councils.[1]

Operating revenue and rates revenue

3.3 In 2011/12, local authorities had total operating revenue of $8.3 billion, which compares with their combined $8.1 billion budget. The operating revenue received for 2011/12 was $0.2 billion or 2.4% more than budget. The major difference in total operating revenue for 2011/12 is primarily because Christchurch City Council received $0.2 billion more earthquake income (insurance proceeds and revenue from the Crown) than budgeted.[2]

3.4 Rates revenue made up 55% of operating revenue – this percentage is slightly higher than the two previous years' proportions of 53% and 54%. In 2011/12, local authorities collected $4.6 billion of rates revenue, consistent with what was budgeted. Although the rates revenue was $0.7 billion more than in 2010/11 ($3.9 billion), the 2010/11 figure included only eight months of rates revenue for Auckland Council. This is because Auckland Council (which was formed on 1 November 2010) prepared eight-month results for 2010/11.

3.5 Apart from rates, the other major sources of revenue in 2011/12 were New Zealand Transport Agency subsidies of $938 million or 11% of operating revenue (2010/11: $933 million, 14.6%) and development contributions and vested assets of $320 million or 4% (2010/11: $243 million, 3.8%).

Operating expenditure

3.6 In 2011/12, local authorities' total operating expenditure was $8.1 billion, which compares with a budget of $7.2 billion. This was $0.9 billion or 12.5% more than budgeted. The total operating expenditure was $1.3 billion more than in 2010/11. The main reasons for the significant variance to budget were the operating results of Christchurch City Council and Auckland Council. Christchurch City Council's

1 A unitary local authority is a territorial local authority that has the responsibilities, duties, and powers of a regional local authority granted under the provisions of an Act or an Order in Council giving effect to a reorganisation scheme.

2 Christchurch City Council, *Annual Report 2011/12*, pages 110 and 111 *Financial Highlights*.

earthquake-related costs exceeded budget by $204 million.[3] Amendments to accounting treatment of grants to Auckland Transport and unrealised losses from derivative financial instruments contributed to Auckland Council's operating costs increasing by $301 million.[4]

3.7 Operating expenditure for 2011/12 was made up of:

- employee costs of $1.6 billion (20%);
- depreciation of $1.4 billion (17%);
- finance costs of $0.6 billion (7%); and
- other operating expenditure of $4.5 billion (56%).

Capital expenditure

3.8 Local authorities' capital expenditure was $2.3 billion in 2011/12, which compares with a budget of $2.9 billion. This was $0.6 billion or 26% less than budgeted for 2011/12. Three Canterbury local authorities – Christchurch City Council, Selwyn District Council, and Waimakariri District Council – collectively spent $328 million less than budget because of delays in capital projects after the earthquakes. Other local authorities that had significantly less capital expenditure compared to budget were Auckland Council ($82 million), Dunedin City Council ($26 million), and Queenstown-Lakes District Council ($22 million).

3.9 We found that some local authorities have improved their explanations of actual-to-budget capital expenditure variance in their annual reports but there remains room for improvement. This type of disclosure is mandatory. In our view, local authorities (and all public entities) could do this better so that the public can understand why the entities did not achieve what they had set out to do.

Debt

3.10 Local authorities mainly use debt to pay for long-life assets rather than to pay for their day-to-day operations.

3.11 Local authorities had debt of $8.5 billion as at 30 June 2012, which was $0.5 billion, or 6%, more than budgeted. The debt was $0.9 billion, or 12%, more than in 2010/11. Auckland Council constructed and acquired $360 million of operational and infrastructural assets during the year. Also, the Council funded $530 million of assets acquired by its CCOs. The Group funds a portion of these assets through a centralised borrowing programme resulting in increased borrowings by the Council of $880 million.[5]

3 Christchurch City Council, *Annual Report 2011/12*, pages 110 and 111 *Financial Highlights*.

4 Auckland Council, *Annual Report 2011/12*, Volume 3, page 131, Note 34 *Explanations of major variances against budget*.

5 Auckland Council, *Annual Report 2011/12*, Volume 3, page 132.

3.12 Christchurch City Council had $196 million more debt than it had budgeted because of the complexity of anticipating earthquake-related costs.[6]

3.13 Conversely, some local authorities borrowed less because of lower capital expenditure during the year, and rescheduling or reprioritising projects. Some larger local authorities – Greater Wellington Regional Council, Hamilton City Council, Kapiti Coast District Council, Marlborough District Council, Nelson City Council, New Plymouth District Council, Palmerston North City Council, and Queenstown-Lakes District Council – collectively took out $245 million less debt than budgeted.

Group financial information

3.14 We have considered the 2011/12 group financial information for the 13 city councils. Eleven city councils prepared group financial statements incorporating their CCOs' financial results. Napier City Council and Porirua City Council have no CCOs and so do not have group financial statements. Some CCOs run core operations – for example, Auckland CCOs operate water supply, wastewater, and transport activities.

3.15 The city councils collected total operating revenue of $6.8 billion, of which their CCOs contributed $2.1 billion or 31%. The four largest city council groups – Auckland Council, Christchurch City Council, Dunedin City Council, and Wellington City Council – collected $5.8 billion of revenue, of which their CCOs contributed $2.0 billion or 35%.

3.16 Total group operating expenditure of the city councils was $6.5 billion, of which the CCOs spent $2.0 billion or 31%. The total operating expenditure of the four largest city council groups was $5.5 billion, of which CCOs spent $1.9 billion or 36%.

3.17 The total assets of the city council groups were $71.1 billion, of which $7.1 billion, or 10%, related to the CCOs. The four largest city council groups had total assets of $56.4 billion. CCOs held $6.8 billion or 12% of these assets. This reflects that CCOs do not hold significant levels of assets (including property, plant, and equipment) compared to their parent local authorities.

3.18 The city council groups had capital expenditure of $2.3 billion, of which their CCOs spent $1.0 billion or 43%. The four largest city council groups had capital expenditure of $2.0 billion, of which their CCOs spent $1.0 billion or 51%.

3.19 The total debt of the city council groups as at 30 June 2012 was $8.5 billion, of which CCOs accounted for $2.2 billion or 26%. The four largest city council groups had debt of $7.2 billion – their CCOs' proportion was $2.1 billion or 29%.

6 Christchurch City Council, *Annual Report 2011/12*, page 114, *Financial Highlights*.

Part 4
Using financial statements to understand financial performance

4.1 In this Part, we describe:

- the set of indicators that we have applied to financial data in local authorities' annual reports to better understand financial performance; and
- our analysis of the potential for financial uncertainty and risk in the local authorities.

Why we apply a set of indicators to better understand financial performance

4.2 In our previous reports to Parliament on the results of the annual audits, we began to review the cumulative financial results of all local authorities. Our approach had been to consider the financial data, based mainly on trends, without a method for interpreting, analysing, and assessing the information.

4.3 In our December 2012 report, *Matters arising from the 2012-22 local authority long-term plans*, we set out our approach to assessing local authorities' financial performance based on financial statements. We based our analysis and observations in that report on historical annual report information and forecast financial information in long-term plans.

4.4 In this report, we continue to seek to better understand financial performance using indicators based on financial information in annual reports. Some of the indicators we have used to assess performance in this report differ from those used in our long-term plan report. This is because some of the items used in the indicators in the long-term plan report were not consistently identifiable in the annual reports of all local authorities.

4.5 As a result of the TAFM amendments to the Act, additional disclosures were required in the 2012-22 long-term plans compared to the 2011/12 and previous annual reports. For example, local authorities were required to separately disclose the amount of capital spending broken down into expenditure to meet additional demand, improve service, and replace existing assets. This was not a requirement in previous long-term plans or the annual reporting against the forecast.

4.6 We have refined our approach to assessing financial performance and interpreting the results, reflecting the discussions we have had with local authorities since the publication of our long-term plan report and as a result of further internal research.

4.7 The set of indicators is not an "audit test". It remains one possible way to better understand a local authority's financial performance and position (and financial sustainability). Financial performance needs to be considered in the broader context and in the light of non-financial performance to provide an overall picture of an entity's performance and position, and overall sustainability.

Our set of financial indicators

4.8 Performance is about achieving objectives in an uncertain environment. It is about striving for something that is attainable but not certain. Therefore, measuring and analysing performance comprehensively requires understanding a local authority's objectives, the risks to achieving those objectives, and the relationship between the two.

4.9 Financial statements are important in assessing performance. Although they say little about many of the non-financial objectives of public entities, they describe and summarise many of the factors that reflect the risk associated with achieving objectives (for example, through the underlying revenue, costs, liabilities, and assets).

4.10 An important part of the usefulness of financial statements is their ability to help a reader understand financial uncertainty in a standardised and comparable way.[7] This is a fundamental part of a local authority's performance story.

The potential financial risks in delivering on sector objectives

4.11 Our approach to understanding the financial uncertainty of local authorities is based on our role of providing independent assurance about the performance of public entities to Parliament and the public. We do this through our annual audits of local authorities' financial and non-financial information.

4.12 Risks in the local government sector arise from many different sources, including economic, political, and structural changes inside and outside the local authority. Our approach does not attempt to identify and understand the root cause of risk. Instead, we use the financial statements to help assess the overall effect on three areas that relate to local authorities' financial ability to deliver on their objectives. The three areas are:

- The **stability** of a local authority's activities (operations, capital, investing, and financing) is about how reliably a public entity plans, budgets, and delivers financial resources. To help understand this component, we focus on financial information that shows how consistent and accurate these activities are (for example, by comparing actual performance with budget/forecast).
- The **resilience** of a local authority to short-term anticipated events reflects how well it can "bounce back". To help understand this component, we consider financial information that shows how well a local authority can respond without major structural or organisational change. For example, we look at

7 The terms "risk" and "uncertainty" can have different meanings. For simplicity, we use the terms interchangeably to mean the potential for variation from what is expected or considered "normal". For instance, a public sector entity's large operating surplus can be as much an indicator of uncertainty (or risk) as if it had a large operating deficit.

cash flow and income statement items such as interest expense and rates, and balance sheet items such as assets and liabilities.

- The **sustainability** of a local authority looks at how prepared the entity is for long-term uncertainties and to maintain itself indefinitely. To help understand this component, we consider financial information that indicates how longer-term uncertainties are being managed. We focus, for example, on balance sheet items such as assets, liabilities, and debt, together with related items such as capital expenditure, depreciation, and interest expense.

4.13 To assess the potential risk involved in delivering on sector objectives, we assess, over consecutive financial periods, the relative values, direction, and distribution of various indicators within the three areas discussed above. In other words:

- whether the average values are within a reasonable range and how they are trending over time. This indicates the relative position of the sector's stability, resilience, and sustainability; and
- the distribution of entities that lie outside what we consider "normal" for the sector.

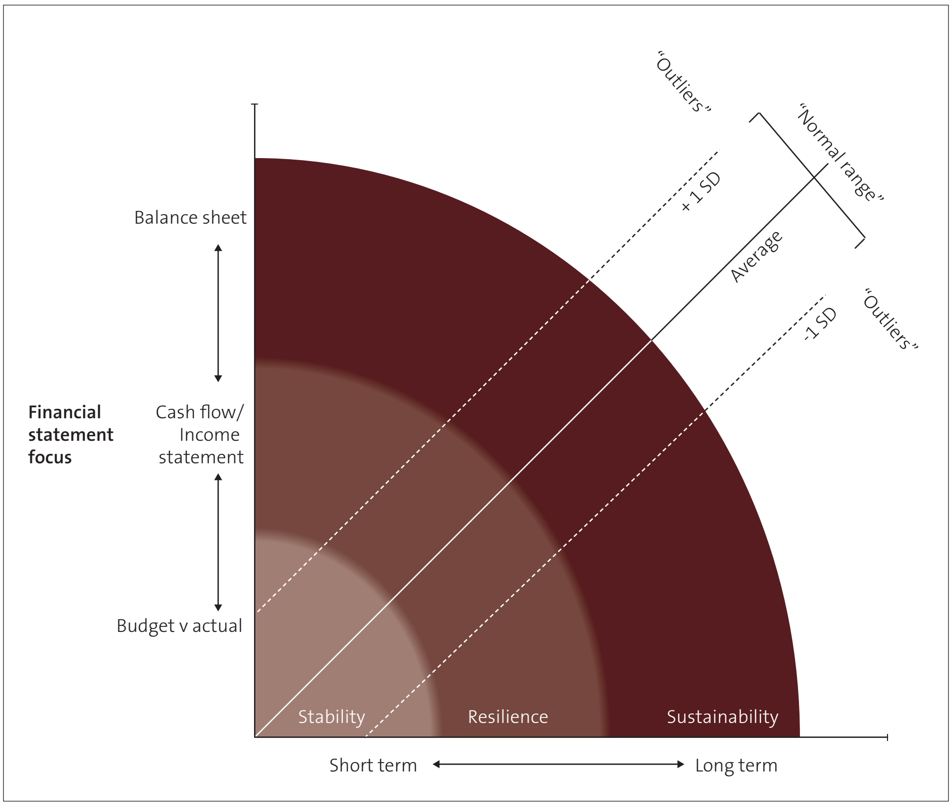
4.14 Greater variability implies more uncertainty in the sector's relative position and ability to manage stability, resilience, and sustainability in a standardised and uniform way. We have used a traffic light system to summarise the results of our assessments (see Figure 4).

Figure 4
Traffic-light system to summarise the results of our assessments

4.15 Figure 5 provides a visual presentation of our approach. It shows how sustainability builds on the stability and resilience of an organisation, and how we summarise and portray the "normal range" throughout local government by using a standardised measure of variation on either side of the average – in other words, plus or minus one standard deviation.[8]

4.16 In the rest of this Part, we use the term "norm" to refer to this range of one standard deviation either way from the average for the measure concerned.

Figure 5
Outliers outside standard deviation from average



8 Standard deviation is a statistical measure of how far the data points are spread. A small standard deviation indicates that the data points tend to be close to the average. A large standard deviation indicates that the data points tend to be further from the average.

4.17 To measure the variability among the indicators, we differentiate outliers that lie close to one standard deviation from the average and outliers that are more than two standard deviations from the average. We then analysed these figures collectively.

4.18 As with all analyses of financial performance, there are limitations to what we can infer. Our approach focuses on the potential for uncertainty and does not comprehensively assess local authorities' performance. We are not trying to rank local government entities. Moreover, what is shown as the normal range assumes a regularity that may not always be there. The outliers are not necessarily more uncertain in delivering on their objectives – they may simply warrant further investigation.

4.19 Figure 6 summarises the set of indicators that we have used. Paragraphs 4.20-4.26 explain the information that these indicators reveal.

Figure 6
Our indicators of financial performance

Stability	Resilience	Sustainability
Actual to budgeted net cash flows from operations	Interest expense to rates revenue	Interest expense to debt
Actual to budgeted debt	Net cash flows from operations to capital expenditure	Capital expenditure to depreciation
Actual to budgeted capital expenditure	Working capital	Gross debt to total assets

Stability indicators

4.20 For stability, we compare local authorities' actual net cash flows from operations, the debt balance, and the capital expenditure with what was originally budgeted.[9] A result of 100% indicates that planning was reliable, budgeting was accurate, and financial resources were used as intended.

Resilience indicators

4.21 The interest expense to rates revenue indicator shows the proportion of rates revenue that is required to service debt. A higher percentage means less flexibility to respond to unexpected events.

4.22 The indicator comparing net cash flows from operations with capital expenditure shows the cash surplus available for capital expenditure. A higher percentage indicates a local authority's better ability to pay for capital expenditure using internally generated funds rather than relying on external sources. For inter-

9 Capital expenditure is expenditure on property, plant, equipment, and intangible assets.

generational equity reasons, local authorities typically use debt to fund long-life assets, with costs spread over many years.

4.23 The working capital indicator measures whether a local authority has enough resources to pay what it owes in the next 12 months. A working capital percentage greater than 100 is preferable because that indicates there are more resources available to respond to short-term unexpected events.

Sustainability indicators

4.24 The interest expense to debt indicator shows the effective interest rate of debt. A higher result indicates a relatively higher cost of external funding that the local authority (and therefore the community) has to bear. Local authorities typically use debt to fund long-life assets rather than for business-as-usual operations.

4.25 The capital expenditure to depreciation indicator is used because depreciation is a reasonable estimate of the capital expenditure needed to maintain the asset base.[10] A better indicator would have been replacement of assets to depreciation. Local authorities typically call replacement of assets "renewals". Because asset renewals are only part of a local authority's capital expenditure,[11] a result above 100% may indicate that the asset base is sustainable. Until 2011/12, local authorities were not required to separately show renewals in their financial statements. This will change from 2012/13 (see paragraph 4.5).

4.26 The proportion of gross debt to total assets indicates a local authority's capability to manage longer-term financial uncertainties. For example, a result of 10% means a local authority has debt equivalent to 10% of assets. This indicator considers debt as a source of funding assets and the influence that external funders may have over the entity.

Detailed analysis using our set of financial indicators

4.27 We used the indicators described in paragraphs 4.20-4.26 to analyse financial information and assess the effect that they have on the three main areas of financial uncertainty. We comment on the local authorities that appear outside the calculated norms.

Stability indicators and trends

4.28 We looked at the actual versus budgeted results for the three years 2009/10, 2010/11, and 2011/12. We have drawn the actual and budgeted results from local authorities' annual reports.

10 Depreciation reflects the depreciation expense from property, plant, and equipment, and amortisation expense from intangible assets.

11 The other categories of capital expenditure are to improve the levels of service, and assets to meet additional demand.

Actual to budgeted net cash flows from operations

Average value	
Direction	
Variability	

4.29 The cash flows from operations reflect a local authority's cash surplus (or deficit) from normal, business-as-usual operations.

4.30 The average actual to budgeted net cash flows from operations improved in the three years, from 94% in 2009/10 to 101% in 2011/12.[12] The average for the three years was 97%. During the three years, 24% of the local authorities were outliers, and 10% were outside two standard deviations from the average. This indicates low to moderate variability in how accurately local authorities budget net cash flows from operations.[13]

4.31 We saw three notable outliers:

- Bay of Plenty Regional Council budgeted for negative net cash flows from operations in 2009/10 and 2011/12 but, in those years, achieved positive net cash flows greater than 200% of budget. In 2010/11, the Council achieved only 20% of budgeted positive net cash flows.
- Greater Wellington Regional Council significantly exceeded budget (by at least 163%) in 2009/10, in 2010/11, and in 2011/12. The Council's results reflected the timing of when it received subsidies for its public transport activities.
- In 2009/10, 2010/11, and 2011/12, Environment Southland budgeted consistently for negative cash flows from operations but had positive cash flows.

4.32 Based on reviewing their annual report, it was difficult to work out the reason for the results of Bay of Plenty Regional Council and Environment Southland, including why they had budgeted for negative net cash flows from operations. This raises questions about the accuracy of their cash flow budgets – typically, public entities do not budget for negative net cash from operations. Negative net cash from operations suggests cash is required from external funding sources, such as debt, for day-to-day operations.

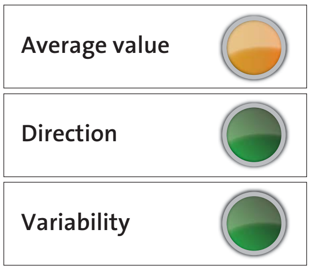
4.33 This was not uncommon – many local authorities' (and other public entities') annual reports do not effectively explain significant variances to budget for items in the cash flow statement. Local authorities typically explained significant variances identified in the income statement and balance sheet. We commend

12 We made some adjustments to the raw percentage results, including capping results at 200%.

13 A sustained or consistent result of 100% indicates reliable planning, accurate budgeting, and robust delivery. A result below 100% means that the local authority achieved less than it had budgeted, and a result higher than 100% means that the local authority exceeded budget (for example, 120% means exceeding budget by 20%).

Tauranga City Council's 2011/12 annual report disclosures because they explain why there were large differences from budget and the previous year.[14]

Actual to budgeted debt

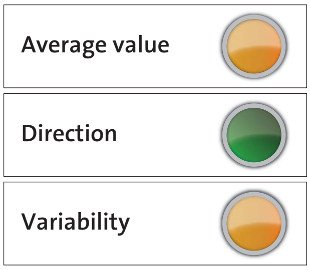


4.34 The accuracy with which local authorities forecast their debt requirements improved during the three years, from 70% to 81%. The average actual to budgeted debt for the three years was 76%, which suggests that the budgeting accuracy could further improve. A quarter of the results were outliers, including 2% that were outside two standard deviations from the average. This shows that there was little variability in how accurately debt was budgeted.

4.35 The forecasting of debt is closely associated with capital expenditure. For actual to budgeted capital expenditure, local authorities achieved 80% of their budget during the last three years (see paragraph 4.37).

4.36 Eight local authorities had no debt as at 30 June 2012. Another five local authorities had debt balances less than $1 million. Most of these 13 local authorities are regional councils. As a result, more outliers were below one standard deviation than above.

Actual to budgeted capital expenditure



4.37 The accuracy with which local authorities forecast capital expenditure improved during the three years, from 76% to 85%. The average actual to budgeted capital expenditure for the three financial years was 80%. Twenty percent of the local authorities were outliers, including 6% that were outside two standard deviations from the average. This shows low to moderate variability with the accuracy of actual to budgeted capital expenditure.

4.38 We noted that Environment Southland spent consistently more on capital expenditure than budgeted. The amount budgeted was typically less than $1 million a year (from a low base) but the local authority had more capital expenditure each year – up as much as 194% in 2011/12. In its annual reports, Environment Southland disclosed that the variances reflected spending on an integrated regional information system (some of which had been budgeted as operational expenditure) and an upgrade to the financial management system.

4.39 Some local authorities had less capital expenditure than budgeted but we did not see any that consistently spent less than the average during the three years.

14 See Tauranga City Council, *Annual Report 2011/12*, pages 223-228.

Summary observations about stability

4.40 Overall, in the last three years, local authorities were more accurate in budgeting their net cash flows from operations, debt level, and capital expenditure. Average results for all three indicators vary between 75% and 96%. The improving results during the last three years are evidence that local authorities are getting better at forecasting.

4.41 The relationship between the three indicators of actual to budget net cash flows from operations, debt levels, and capital expenditure are linked and important to understanding the actual funding position that local authorities seek to achieve. We expect there to be annual variations in local authorities' actual to budget results, although explanations of the variations was not always obvious from the annual reports.

4.42 We have raised with the sector, on a number of occasions, the need for clarity about these key decisions – particularly decisions about the level of capital expenditure achieved (which is not necessarily unrelated to the cash and debt required). General reasons we have been given include:

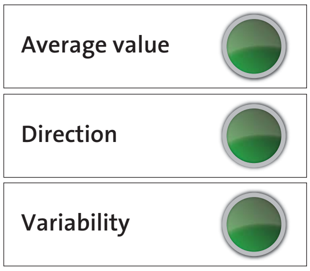
- efficiencies obtained in the procurement of actual capital projects;
- deferrals of capital expenditure because of other events (for example, a flood event drawing on cash funds available);
- changed priorities; and
- financial pressures.

4.43 In our view, explanations like this should be more transparent in the annual report because they are critical to understanding why actual to budgeted variances are occurring. There is an opportunity to address this in future annual reports because local authorities are required to report against their adopted financial strategies, which take account of the three stability indicators, starting with their 2012/13 annual report.

Resilience indicators and trends

4.44 We looked at three indicators of resilience that consider how well local authorities can respond to short-term shocks. For the interest expense to rates revenue indicator we considered results for two years – 2010/11 and 2011/12. We did not readily have available the interest expense information from the 2008/09 to 2009/10 annual reports. For net operating cash flows to capital expenditure and working capital indicators, we considered results for four years, 2008/09 to 2011/12.

Interest expense to rates revenue



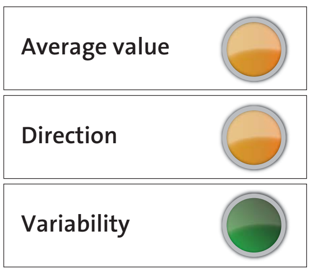
4.45 This comparison looks at the proportion of rates revenue used to service debt. A high percentage means less flexibility to respond to unexpected events.

4.46 The average interest expense to rates revenue was 7.8%. We reported that the average in the long-term plans was 9%. Thirty-two percent of the results were outliers, including 4% that were outside two standard deviations from the average. Although this indicates low variability, the result is affected by some local authorities with no debt – they did not incur any interest expense. On the other hand, there are some local authorities that have high debt balances and a high proportion of rates revenue is used to cover the interest expense. These local authorities have greater potential or risk of not being able to respond to short-term events compared to other local authorities.

4.47 We saw the following notable outliers:

- Kaipara District Council had interest expense to rates revenue of 23% in 2010/11 and 35% in 2011/12. Kaipara District Council's largest infrastructure project is the Mangawhai Community Wastewater Scheme.
- Tauranga City Council had interest expense to rates revenue of 26% in 2010/11 and 2011/12. Tauranga City Council's debt has increased each year for the last three years, reflecting its borrowing to fund capital projects.
- Western Bay of Plenty District Council had interest expense to rates revenue of 37% in 2010/11 and 32% in 2011/12. Western Bay of Plenty District Council's debt has increased each year for the last three years, reflecting its borrowing to fund capital projects.

Net cash flows from operations to capital expenditure



4.48 This comparison looks at the local authority's cash surplus (or deficit) from normal business-as-usual operations that has been or could be used towards capital expenditure requirements. Apart from cash surplus from normal operations, a local authority can fund capital expenditure by selling investments or assets or borrowing to pay for the long-life assets. A higher percentage indicates that the local authority is funding capital expenditure with internally generated funds rather than external funding (debt).

4.49 The average net cash flow from operations to capital expenditure was 81% in the last four financial years. The average percentage in each of the four years fluctuated between 70% and 87% – there was no consistent pattern. Nine percent of the local authorities were outliers, including 4% that were outside two standard deviations from the average. This indicates low variability. There were as many outliers above as below the average.

4.50 We did not see any local authorities that were consistently outliers. Although an average of 81% is not an unwarranted position to be in, if the percentage decreases over the longer term, it means a local authority is relying more on external funding.

Working capital

4.51 This indicator compares current assets to current liabilities. It measures whether a local authority has enough resources to pay what it owes in the next 12 months without having to resort to other options, such as borrowing further or selling long-term investments and assets.

- **Average value**
- **Direction**
- **Variability**

4.52 The average working capital result was 187%. Twelve percent of local authorities were outliers, including 6% that were outside two standard deviations from the average. This indicates low to moderate variability. In general, regional councils have higher working capital percentages than territorial local authorities. This is because territorial authorities typically have some debt reflected in current liabilities. Debt is classified as a current liability if it is due for repayment in the next 12 months. Local authorities typically have arrangements where this debt is reissued but under different borrowing terms and conditions. This can have a significant effect on this indicator but does not reflect an immediate cash need for the local authority.

4.53 Bay of Plenty Regional Council, Environment Southland, Hawke's Bay Regional Council, Mackenzie District Council, Napier City Council, Otago Regional Council, and Wairoa District Council were consistent outliers during the four years, with working capital results greater than 200%. On the other hand, we noted that 23 local authorities (30%) had working capital results less than 100%.

4.54 Our analysis looked at working capital at a point in time. We acknowledge that some local authorities manage their working capital and cash requirements very closely during the year to reflect when cash is required. For example, it is more cost-effective to draw on cash facilities when required because investment returns are always lower than the cost of borrowing.

4.55 We also note that a very high working capital result does not always reflect good working capital management. A high working capital result could mean that a local authority is not managing its cash resources effectively by, for example, paying off debt rather than holding cash as an investment.

4.56 The 23 local authorities with a working capital result less than 100% had greater potential for uncertainty with responding to uncertain events compared to other local authorities. We acknowledged earlier that there could be a significant level of debt included in current liabilities that could be reissued but subject to different credit terms and conditions.

Summary observations about resilience

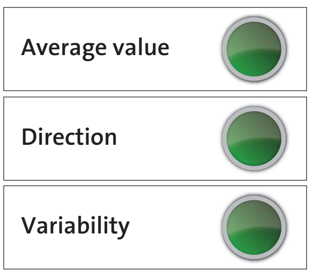
4.57 In general, local authorities were in a good position with interest expense to rates revenue and working capital. The average value with net cash flows from operations to capital expenditure could be better than the current 81% because it means that 19% of capital expenditure is paid for from other sources, most likely debt. However, it could be appropriate, particularly for local authorities experiencing high growth, to spread the cost of capital expenditure over many years, in line with principle of inter-generational equity.

4.58 There was little variability in the results for interest expense to rates revenue and net operating cash flows to capital expenditure, but moderate variability with working capital. Thirty percent of local authorities had a working capital result of less than 100%, which means that these local authorities could have faced greater risk than other local authorities in their ability to respond to unexpected events through working capital management.

Sustainability indicators and trends

4.59 We looked at three indicators of sustainability that consider how durable a local authority is in the face of longer-term uncertainties. For interest expense to debt, we considered results for two years only – 2010/11 and 2011/12. For capital expenditure to depreciation and gross debt to total assets, we analysed the results for four years – 2008/09 to 2011/12.

Interest expense to debt



4.60 The interest expense to debt reflects the cost of borrowing – the effective interest rate.

4.61 The average effective interest rate during the two years was 6.49%. In our long-term plan report, local authorities forecast an average interest rate of

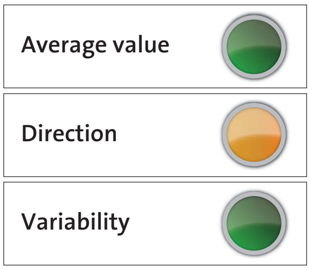
5.9% during the 10 years to 2021/22. Seventeen percent of the local authorities were outliers, including 3% that were outside two standard deviations from the average. This indicates relatively little variability between local authorities.

4.62 Because we analysed only two years' of results, we cannot draw clear conclusions. However, we have taken into account the forecast average interest rates analysed in our long-term plan report. We concluded that the average interest rate was reasonable, given the current and forecast market interest rates.

4.63 In our long-term plan report, we listed 18 local authorities that were shareholders of the Local Government Financing Agency (LGFA). At the time of writing, another 12 local authorities had joined as shareholders. A further six local authorities have joined LGFA as borrowers and guarantors. This means that 36 local authorities have access to the funding arrangements of the LGFA – potentially lower interest rates and the ability to borrow in foreign currency. We calculated that the debt balance of those 36 local authorities was $8.1 billion and represented 91% of the total debt of local government as at 30 June 2012.

4.64 We have not looked in detail at whether the 36 local authorities access none, some, or all of their borrowing through the LGFA.

Capital expenditure to depreciation



4.65 The capital expenditure to depreciation indicator reflects the reinvestment to maintain or improve the assets' performance capability and the nature of the service that the assets provide. We analysed renewals expenditure to depreciation in our long-term plan report because this indicator provides a better picture of assets' sustainability. However, we were unable to look at renewals to depreciation because local authorities were not required to disclose renewals in annual reports before the TAFM amendments to the Act.

4.66 The average capital expenditure to depreciation was 173%. Sixteen percent of results were outliers, including 4% that were outside two standard deviations from the average. This indicates low variability among local authorities. We saw no clear trend, because the average percentage for all local authorities fluctuated during the four years. In our long-term plan report, we reported that the average forecast was 135% during the 10 years to 2021/22.

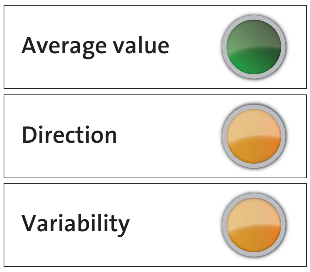
4.67 Most local authorities had capital expenditure greater than 100% of depreciation. Fast-growing local authorities typically had a higher percentage than others. The capital expenditure should reflect that set out in the asset management plans.

As discussed in paragraph 4.37, local authorities tended to carry out less capital works than budgeted.

4.68 Three local authorities consistently had a capital expenditure to depreciation result less than 100% in each of the four years from 2008/09 to 2011/12. The results ranged as follows: Hutt City Council was 62% to 86%; Waimate District Council was 63% to 99%; and Kawerau District Council was the lowest overall, with 44% to 59%.

4.69 A consistently low percentage could call into question the ability to maintain assets in the long term or suggest a need for a significant rise in capital expenditure in the future. This result warrants further research. To fully understand whether this result indicates a future issue requires sound and comprehensive knowledge of the state and performance of the individual local authority's infrastructure systems. The requirement to split capital expenditure into three categories from 2012/13 onwards will also help in interpreting future results for this indicator.

Gross debt to total assets



4.70 For the gross debt to total assets indicator, a value higher than 100% indicates that a local authority has more debt than assets. This is highly unlikely in local government because local authorities have a large and long-life asset base.

4.71 The average gross debt to total assets was 4.5%. Forty percent of local authorities were outliers, including 5% that were outside two standard deviations from the average. This indicates a moderate to high variability. We saw no clear trend – the average percentage for all local authorities fluctuated during the four years. In the long-term plan report, we stated that the average gross debt to total assets forecast in the 10 years to 2022 was 6%, so the current average is comparable to that forecast for the coming years.

4.72 Seven local authorities – Central Otago District Council, Environment Southland, Mackenzie District Council, Northland Regional Council, Taranaki Regional Council, Waikato Regional Council, and Wairoa District Council – had no debt in any of the four financial years.

Summary observations about sustainability

4.73 In general, local authorities' interest rate, capital expenditure to depreciation, and gross debt to total asset indicators are within a reasonable range. However, the distribution of results for the latter two indicators during the last four years make it difficult to see any pattern of direction and reflects the varying circumstances of local authorities.

4.74 Variability with the gross debt to total assets indicator was moderate to high. Seven local authorities did not have any debt in each of the last four financial years which contributed to the assessment of variability. Overall, the gross debt to total assets percentage is relatively low, so there is less cause for concern.

Our conclusions about using financial statements to understand financial performance

4.75 Overall, our finding on the potential short-, medium-, and long-term risks with local authorities delivering on their objectives is mixed.

4.76 Positively, local authorities are showing improvements in their capability to plan, budget, and deliver the financial resources required to meet their service delivery objectives. Operationally, the local government sector remains strong in this aspect. Debt levels have remained within a reasonable range. Local authorities' ability to service that debt is also strong and consistent throughout the sector. The indicators of long-term sustainability are all within a reasonable range, implying some robustness in the capability to manage longer-term uncertainties.

4.77 In our long-term plan report, we signalled local authorities' intention to live within their means and that they are not raising rates to unreasonable levels to do so. We continue to hold that view. Continuing analysis of actual against budgeted spending will allow for this insight into the strength of local authorities' financial performance.

4.78 In the last four years, there has been a pattern of ongoing under-investment of capital expenditure and (related) debt requirements. The direction of many of the indicators of resilience and sustainability suggest some variability and warrants further analysis. There are more outliers than we would have expected for many of the indicators. This was particularly so for short-term planning and budgeting across local authorities for capital investment and funding. This variability in part reflects the variety of approaches to managing these potential short-, medium-, and longer-term risks.

4.79 Our analysis of local authorities' 2012-22 long-term plans showed that the main area of risk related to local authorities' ability to ensure sustainability in the longer-term. This was based on what appeared to be declining capital investment towards 2021/22 and ongoing issues in forecasting capital and funding needs.

4.80 In the last four years, internally generated funds were less than the sector's capital expenditure needs. Consequently, for some local authorities, the level of debt was increasing. This was, in part, due to some local authorities providing for anticipated growth and also adhering to the statutory principle of inter-generational equity, which supports a level of debt funding of services using infrastructure assets. These local authorities will need to actively monitor capital investment needs to ensure that debt funding is manageable despite the reasonable debt levels at present.

4.81 We recommend that more work be done to understand the nature of the potential risks that local authorities might be exposed to in the short to medium term, and how they are planning to respond to those risks.

4.82 We plan to continue to assess local authorities' financial performance through a set of indicators. The comparison of actual performance against that budgeted continues to add valuable insight to the financial performance and risks in the sector.

Part 5
Changes to annual reports and financial reporting

5.1 In this Part, we highlight imminent changes to the content of local authorities' annual reports and changes to financial reporting during the past 12 months, including strategic changes to the financial reporting framework and proposed changes to financial reporting standards. We discuss how these changes are likely to affect local authorities and make concluding comments.

Imminent changes to the content of annual reports

5.2 The 2012/13 annual reports are the first to include information required by the TAFM amendments.

5.3 In 2012, the Act was amended again, as part of the reform of local government. This will also have some effect on local authorities' 2012/13 annual reports.

5.4 From 2012/13, annual reports must include:

- a funding impact statement[15] for each group of activities compared to what was budgeted in the long-term plan, and a funding impact statement for the whole of the local authority compared to the previous financial year, which must be presented in the format set out in the Local Government (Financial Reporting) Regulations 2011;
- for each group of activities, a statement comparing budgeted capital expenditure with the amount spent to meet additional demand, improve services, and replace assets;
- for each group of activities, a statement about internal borrowing, including amounts borrowed and repaid during the year and interest paid;
- information about the purpose and activities of each reserve fund set aside by the local authority, and financial information about each fund; and
- a report on the number of employees and their annual pay.

Strategic changes to the financial reporting framework

5.5 Since 1 July 2011, the External Reporting Board (XRB)[16] has been responsible for preparing and setting standards for financial reporting. The XRB worked out a proposed strategy for different classes of entities and for tiers of financial reporting within those classes, which it consulted on in September 2011.[17] On 2 April 2012, the Minister of Commerce approved the finalised strategy.

15 The Funding Impact Statement shows the amount of funds from each funding source and how the funds are/were applied.

16 The XRB was previously the Accounting Standards Review Board, which had a narrower role.

17 This consulting followed similar consulting that the Accounting Standards Review Board carried out in 2009.

5.6 The strategy includes what has become known as a "multi-standards approach" to financial reporting. The approach distinguishes three classes of entities:

- for-profit entities in the public and private sectors;
- public benefit entities in the public sector; and
- public benefit entities in the not-for-profit sector.

5.7 The approach distinguishes different tiers of reporting for classes of entities, with each tier having different financial reporting requirements.

5.8 The multi-standards approach recognises that financial and non-financial information should meet the needs of people who use general purpose financial reports. Those needs are expected to be best met by financial reporting standards being tailored to particular classes and sizes of public entity.

5.9 The multi-standards approach is expected to better align the cost of producing general purpose financial reports and the benefits for people who use those reports. For some public entities, this should make it easier and cheaper to prepare their general purpose financial reports.

5.10 The XRB has prepared a transition plan that takes into account proposed changes to the law and aims to have a fully operational new financial reporting framework within the next two to three years.

5.11 The new financial reporting framework will affect how public entities report. Depending on their nature and size, public entities could report under one of six categories.

5.12 The categories for public benefit entities in the public sector are:

- full reporting (tier 1);
- reduced disclosure reporting (tier 2);
- simple format accrual reporting (tier 3); and
- simple format cash reporting (tier 4).

5.13 The categories for for-profit entities in the public sector are:

- full reporting (tier 1); and
- reduced disclosure reporting (tier 2).

5.14 There are two temporary categories for for-profit entities, which will be removed when changes are made to financial reporting laws. The temporary categories are:

- differential reporting (tier 3); and
- old standards, referred to as "old GAAP" (tier 4).

5.15 Entities that are "publicly accountable" will report fully (tier 1) regardless of size.[18] This will include all "issuers".[19] All other entities will be allocated to a category based on their size, and can choose to report in keeping with the requirements for that category.

5.16 The size criteria for allocating public benefit entities in the public sector to tiers are:

- tier 1 – operating expenditure of more than $30 million;
- tier 2 – operating expenditure between $2 million and $30 million;
- tier 3 – operating expenditure of less than $2 million; and
- tier 4 – only if permitted by legislation (expected to be for small entities).

5.17 The size criteria for allocating for-profit entities in the public sector to tiers are:

- tier 1 – operating expenditure of more than $30 million; and
- tier 2 – operating expenditure of $30 million or less.

5.18 Local government consists of public benefit entities and for-profit entities. We expect some local government entities to report in at least five of the six different categories. Local authorities are expected to report in keeping with public benefit entities tier 1 or tier 2. CCOs and any related entities that are public benefit entities are expected to report in keeping with public benefit entities tier 1, tier 2, or tier 3, depending on their size. Council-controlled trading organisations and any other local government entities that are for-profit entities are expected to report in keeping with for-profit entities tier 1 or tier 2, depending on whether or not they are "publicly accountable" and on their size.

Proposed changes to financial reporting standards

5.19 The XRB has set up a sub-board called the New Zealand Accounting Standards Board (NZASB) that is responsible for preparing the financial reporting requirements for certain classes of entities and tiers. The NZASB is preparing the financial reporting standards that will be used when the new financial reporting framework is fully operational.

Public benefit entities

5.20 The new financial reporting framework will result in new standards and requirements for all public benefit entities in the public sector. The NZASB has recently consulted on new financial reporting standards for public benefit entities in tiers 1 and 2. The new financial reporting standards for public benefit entities are based largely on International Public Sector Accounting Standards (IPSAS). It is proposed that they apply for reporting periods beginning on or after 1 July 2014.

18 "Publicly accountable" entities are defined in the XRB's exposure draft ED XRB A1.

19 "Issuers" are defined in section 4 of the Financial Reporting Act 1993.

5.21 At present, IPSAS are generally in line with the financial reporting standards that most public benefit entities in the public sector use. The standards are based on International Financial Reporting Standards (IFRS). However, over time, we expect IPSAS and IFRS to diverge because the approaches of the two international bodies[20] that set those standards are diverging.

5.22 There are a few significant differences and some subtle differences in the proposed standards for tiers 1 and 2. Therefore, as part of the recent consultation process, we carefully reviewed the proposed new standards and provided comments to the NZASB to help it to finalise the new standards.

5.23 The NZASB is currently consulting on proposals for reporting by public benefit entities in the public sector in tiers 3 and 4. We expect to provide comments to the NZASB on its proposals shortly.

For-profit entities

5.24 The new financial reporting framework retains the financial reporting standards for for-profit entities that are based on IFRS, but changes some of the requirements for for-profit entities at tier 2. For many years, smaller for-profit entities could apply a differential reporting regime that included different accounting requirements and fewer disclosure requirements. At the end of 2012, that regime was replaced with a new reduced disclosure reporting regime.

5.25 The reduced disclosure reporting regime for tier 2 for-profit entities requires those entities to follow the same accounting requirements as tier 1 entities, but has fewer disclosures than the previous regime. The reduced disclosure reporting regime is in line with the requirements in Australia for smaller for-profit entities.

5.26 Apart from the change to a reduced disclosure reporting regime, for-profit entities will have the usual ongoing changes to deal with as standards are introduced or revised. Some new standards will need to be applied in the next year or two.

5.27 Appendix 1 contains a guide to the new financial reporting framework for public entities.

Effect on local government entities

5.28 The changes to Part 3 of Schedule 10 of the Act, including information required by the Local Government (Financial Reporting) Regulations referred to in paragraph 5.4, will affect all local authorities because the changes add to reporting requirements. Further, local authorities will need to revise some comparative information from previous years to meet new presentation requirements.

20 The international bodies are the International Public Sector Accounting Standards Board, which sets IPSAS, and the International Accounting Standards Board, which sets IFRS.

5.29 The changes to financial reporting standards will affect all local government entities in the next two to three years. We expect the changes to affect smaller local authorities most.

5.30 Financial reporting requirements are expected to become less demanding for smaller local authorities that qualify as tier 2 public benefit entities.

5.31 Although council-controlled trading organisations and other for-profit entities that qualify for the for-profit tier 2 will have fewer disclosure requirements, they are expected to have one or two stricter accounting requirements, which will be in line with tier 1. The requirement likely to have the greatest effect is accounting for taxation.

Our concluding comments about changes to annual reports and financial reporting

5.32 Although changes to the content of annual reports add to local authorities' reporting obligations, the changes described in this Part are expected to provide useful accountability information to ratepayers and other users of local authorities' financial statements. We will work with local authorities to ensure that they follow the new reporting requirements appropriately.

5.33 We support the strategic changes and the broad direction of the proposed financial reporting standards that are starting to take shape. We expect to see greater divergence of financial reporting standards internationally, which would have made it increasingly difficult to have one IFRS-based set of financial reporting standards suitable for applying by all public entities. Therefore, we consider that the new financial reporting standards for public benefit entities in the public sector will be a more appropriate base to make future changes.

5.34 Although we support the new financial reporting standards for public benefit entities in the public sector, they are not a "silver bullet" that resolves all the concerns that have been raised about financial reporting. However, in our view, the change is necessary, and it provides the best platform for financial reporting by public benefit entities in the public sector.

Part 6
Reducing and managing greenhouse gas emissions

6.1 This Part reports on the extent to which local authorities have:

- measured, reduced, and offset greenhouse gas emissions from their activities in the year ended 30 June 2012; and
- taken a broader approach to, and drawn up plans for, reducing greenhouse gas emissions in their territories.

6.2 This is the third time we have reported on these matters. Where possible, we have compared the 2011/12 results with those of 2010/11. We have been doing this work to see whether local authorities consider the environmental effects of what they do and whether the New Zealand Emissions Trading Scheme (the ETS) is making a difference to this.

Background

6.3 In late 2012, the amendments to the Local Government Act 2002 removed the requirement for local authorities to promote the four aspects of well-being, including environmental well-being. The Local Government Act 2002 now requires local authorities to take a sustainable approach, which includes taking into account the need to maintain and enhance the quality of the environment and the needs of future generations. Although there is no explicit requirement for local authorities to measure or reduce the environmental effects of their activities, some have chosen to measure the greenhouse gas emissions for their activities, consider their waste management practices, and act to mitigate the environmental effects of those activities where it makes business sense to do so.

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

- measuring;
- reducing; and
- offsetting (for unavoidable emissions).

6.5 Most local authorities accept that it is better to reduce emissions than to offset them.

6.6 To measure emissions, local authorities must collect information about matters such as fuel use, mileage, electricity/gas consumption, and use of raw materials. Data can then be converted into carbon dioxide equivalents using conversion and emission factors available from agencies such as Landcare Research New Zealand Limited and the Ministry for the Environment.

The New Zealand Emissions Trading Scheme

6.7 In August 2011, we published information on the ETS. Our guidance, *The Emissions Trading Scheme – summary information for public entities and auditors*, provides background information about the scheme and gives public entities and auditors our views on how to account for and audit ETS matters.[21]

6.8 The ETS is relevant to local authorities. As well as bearing price increases for fuel and energy, some local authorities and their CCOs are taking part in the scheme because of forestry interests or because they operate landfills.

Waste and the Emissions Trading Scheme

6.9 Waste processing entered the ETS from 1 January 2013, so many local authorities have become participants because they operate waste disposal facilities. (Under the Climate Change Response Act 2002, the operator of a waste disposal facility must take part in the ETS. Most, if not all, solid waste disposal facilities that local authorities operate meet this definition.)

6.10 In October 2012, small and remote landfills were granted an exemption from all surrender and reporting obligations under the ETS. The exemption is available for all landfills in operation since before 1 January 2012 that meet one of the three criteria based on tonnes of waste disposed and distance from the nearest landfill.[22] The exempt landfills will not be required to report emissions or surrender emission units for 2012.

6.11 Operators of waste disposal facilities had to register as ETS participants by 1 January 2012 and are required to pay a cost for every tonne of methane emitted from January 2013.[23] As a result, local authorities might have increased charges for users and investigated ways to reduce their liability, such as focusing more on minimising waste.

6.12 The Waste Minimisation Act 2008 requires waste disposal operators to report their waste tonnage to the Ministry for the Environment to work out the waste disposal levy. Therefore, further compliance costs to meet the reporting requirements of the ETS should be minimal.

21 The guidance is available on our website.

22 See www.climatechange.govt.nz and Climate Change (General Exemptions) Order 2009, clause 12A Exemption for operating remote disposal facilities.

23 Landfill operators that are not exempt are obliged to collect the data in order to calculate and report their greenhouse gas emissions during the calendar year, submit an emissions return by 31 March 2014, and surrender enough emission units by 31 May 2014.

Monitoring and reporting on how local authorities generate and dispose of waste

6.13 We note that, in 2011/12, 37 local authorities monitored and reported on the production and disposal of waste that they or their communities generate. In 2010/11, 24 local authorities did so.

Measuring greenhouse gas emissions

6.14 In 2011/12, 27 local authorities measured their greenhouse gas emissions.

6.15 Most of the local authorities that measure emissions focus on waste, vehicles, air travel, and electricity.

6.16 Many of the local authorities that do not measure their emissions did not consider their emissions to be significant and saw no need to measure them. Other local authorities had not considered the matter.

6.17 Some local authorities took part in the voluntary Communities for Climate Protection New Zealand, which provided a structured approach to reducing corporate and community emissions. However, some local authorities use action plans that the former Communities for Climate Protection New Zealand introduced.

6.18 A few local authorities use the information about their greenhouse gas emissions to report on sustainability in their annual report. For example, Palmerston North City Council reports on emissions using the "Cities Climate Register", a global initiative.[24] Environment Canterbury measures and reports emissions from its vehicle fleet, office electricity, and waste to the landfill, and includes this information in its annual plan and annual report.

6.19 Christchurch City Council has a "climate smart strategy" and a sustainable energy strategy. The "climate smart strategy" addresses community and council emissions. Christchurch City Council describes energy projects on its website and supports the Christchurch Agency for Energy, which has specific targets for slowing energy consumption in Christchurch and encouraging the use of renewable fuels.[25]

24 See the Cities Climate Registry website, www.citiesclimateregistry.org. The Cities Climate Registry is a global mechanism that encourages local government to regularly and publicly report on their greenhouse gas emission reduction commitments, greenhouse gas emission inventories, and climate mitigation/adaptation actions.

25 See the Christchurch Agency for Energy website, www.cafe.gen.nz. The Christchurch Agency for Energy is a local charitable trust that raises awareness of energy, energy use, and energy options in Christchurch and promotes energy efficiency and renewable energy.

6.20 Auckland Council uses an "ecoPortal" to measure, monitor, and reduce use of water, gas, electricity, and other resources, with the aim of measurably reducing greenhouse gas emissions in line with the targets in the Auckland Plan.[26]

Plans to reduce greenhouse gas emissions

6.21 In 2011/12, 23 local authorities had a plan to reduce greenhouse gas emissions, a similar number to the previous year.

6.22 Taranaki Regional Council said it always seeks ways to reduce greenhouse gas emissions. Taranaki Regional Council replaces its modern vehicle fleet every three years and maintains it regularly to ensure fuel efficiency, uses diesel vehicles where possible, and tracks use of fuel. Taranaki Regional Council regularly carries out energy reviews and waste minimisation audits to work out how to use energy more efficiently and generate less waste. After an energy audit by the Energy Efficiency Conservation Authority, Taranaki Regional Council began to use Eco bulbs and ensure that computer screens were switched off when not in use.

6.23 Tasman District Council plans to reduce emissions from landfill activities by diverting organic waste from landfills and collecting and destroying landfill gas. Tasman District Council is working with Nelson City Council to change how organic waste is handled. The two councils are working to measure the organic fraction of landfill waste in the next three years. Depending on the outcome of this work, Nelson City Council might build an organic processing facility in five years' time. Tasman District Council plans to install a landfill gas system as part of its capital budget for stage 3 of the landfill.

6.24 Taupo District Council identified a few options to reduce emissions and included these in its Waste Management and Minimisation Plan 2012. Some of the new initiatives include having more categories of plastic containers that can be recovered for recycling, subsidising home composting, and providing education. Taupo District Council has a target to:

> *... by 2018, reduce the quantity of waste (tonnes) disposed to landfill per person per year by 3% relative to an established 2010 baseline.*

Targets for reducing emissions and how these are reported

6.25 A plan to reduce emissions needs targets and measures to assess and report progress. In 2011/12, we noted that 17 local authorities had targets for reducing emissions. This was an increase from 13 local authorities in 2010/11.

6.26 Most local authorities that have targets for measuring emissions report their achievements internally.

26 See www.the-ecoportal.com.

6.27 Wellington City Council reports against its targets internally and externally and has a specific entry in its long-term plan for "waste reduction and energy conservation". The target for Wellington City Council-generated emissions is a 40% reduction by 2020, and the target for city-generated emissions is a 30% reduction by 2020. Wellington City Council has included a new "our environmental impact" section in its annual report that shows emissions, fuel use, and paper consumption.

Next steps

6.28 During the last three years, we have asked our auditors to gather information from local authorities about their work to measure and reduce greenhouse gas emissions, with a view to reporting to Parliament on:

- the nature and extent of local authorities' commitment to this work; and
- the effects of the ETS on this work.

6.29 Some local authorities have a strong commitment to environmental sustainability and are acting in line with this. But it has been difficult to discern strong trends or clearly identifiable effects of the ETS.

6.30 We are considering whether to continue to gather the base information about emissions measurement and reduction from all local authorities. Rather than collect information from all local authorities, we might focus more closely on those that are taking part in the ETS through waste and forestry activities, with a view to updating our ETS guidance for auditors and public entities.

Part 7
Managing leaky building liabilities

7.1 In this Part, we:

- provide an overview of leaky building liabilities;
- consider the disclosures in 2012-22 long-term plans;
- consider the effect of the October 2012 Supreme Court decision on local authority liability for residential and commercial buildings;
- consider the effect of the Government's Financial Assistance Package (FAP);
- review the kind of claims that local authorities face and the accounting treatment of claims; and
- set out the effect of leaky building liabilities on the four most significantly affected local authorities.

Overview of leaky building liabilities

7.2 Providing for leaky building liabilities continues to be a major matter for many local authorities. Auckland Council, Christchurch City Council, Tauranga City Council, and Wellington City Council ("the four local authorities") are the four most significantly affected local authorities.

7.3 This matter is as significant as it was when we last reported. The challenge of leaky buildings is, if anything, greater. Local authorities completed their long-term plans and through this process, set out the liabilities expected during 2012-22. However, the Supreme Court ruling in October 2012 that local authorities' duty of care extends to all buildings, whether residential or commercial, effectively expanded the potential for liability.

7.4 As at 7 January 2013, the Ministry of Business, Innovation and Employment (MBIE) recorded that 6928 claims had been lodged for 9833 properties and that assessments had been completed for 12,500 properties.[27] There were 1568 active claims, affecting a total of 4653 properties. The four local authorities were responsible for 95% of the properties with active claims, and 86% of the active claims. Although the overall number of claims and properties continues to increase, the number of active claims is 15% less than one year ago. This might reflect the effect of the FAP, but is difficult to assess conclusively now.

7.5 Provision for leaky building liabilities for the four local authorities decreased from $514 million in 2010/11 to $482 million in 2011/12, a decrease of $32 million or 6.2%. The movement in provisions appears to reflect further refinement of the local authorities' ability to estimate their leaky building liabilities. This refinement reflects work that local authorities completed during 2012 for their long-term

27 See the Ministry of Business, Innovation and Employment's website for building and housing information, www.dbh.govt.nz. The figures presented reflect total applications and accepted claims since the start of the Weathertight Homes Resolution service.

plans and more understanding of how claimants have responded to the FAP. None of the four local authorities recorded any unquantified contingent liabilities related to leaky buildings, although the assumptions related to the provisions make clear that the final costs of leaky buildings remain highly uncertain.

2012-22 long-term plans

7.6 The Act required local authorities to explicitly disclose their financial strategy in their 2012-22 long-term plans.[28] We noted that those local authorities most significantly affected by leaky buildings included specific mention of their approach to funding their liability within their financial strategy.[29]

7.7 Wellington City Council has provided for $53.2 million to settle leaky buildings claims. The liability is expected to be realised during the next eight years and will be funded at first through borrowing, with rates increasing by 0.75% a year until the liability has been settled and the debt has been repaid.[30] Auckland Council noted that its leaky home liability would be funded through borrowing spread over 30 years and repaid through rates during this time.[31] In all instances, ratepayers must fund the local authority's share of this liability.

The Supreme Court's decision

7.8 On 11 October 2012, the Supreme Court released a decision on the case between Body Corporate No. 207624 and Alan Millar Parker and others and the (former) North Shore City Council – the Spencer on Byron case. The plaintiffs in the claim successfully argued that North Shore City Council had breached the duty it owed to the owners to take care when inspecting and certifying the building as complying with the building code. Until the Supreme Court's decision, it was recognised that local authorities owed a duty for residential properties. This duty was not commonly thought to extend to commercial properties.

7.9 Provisions included in local authorities' 2011/12 annual reports and 2012-22 long-term plans provide for liability to homeowners. Now, local authorities need to consider the effect of their duty of care for all buildings, residential and commercial, and adjust their reporting provisions accordingly. Few claims for commercial buildings have been lodged to date and no such claims have been settled.

28 For further details on the financial strategy requirements, see *Matters arising from the 2012-22 long-term plans* (2012), Part 2.

29 Christchurch City Council did not complete a long-term plan during 2012 as the Canterbury Earthquake (Local Government Act 2002) Order (No 2) 2011, clause 7(3) allowed for completion to be delayed by one year.

30 See page 128 of Wellington City Council's long-term plan and page 131 of its *Annual Report 2011/12*.

31 See Auckland Council's long-term plan, Volume 3, page 92.

7.10 Calculating the effect of the Supreme Court's decision will present a challenge for local authorities in the coming year. This challenge has been faced by Auckland Council when preparing its six-month accounts released at the end of February 2013. Auckland Council reported that, at this stage, it does not have historical claims experience on which to reliably calculate the Council's liability so it has not recorded a provision or a quantified contingent liability for unreported claims. These accounts provide a lead for other local authorities on how to approach 30 June 2013 reporting responsibilities, but as claims are dealt with the possibility of recording a provision will increase.

The Government's Weathertight Financial Assistance Package

7.11 The FAP became available to homeowners from 29 July 2011, to help them repair their homes faster. Although local authorities tried to factor the FAP's effect into their leaky building liability calculations as at 30 June 2011, this was refined based on the uptake of the FAP in 2011/12.

7.12 The FAP offers qualifying homeowners a share of the agreed actual cost of repairing leaky homes. The Government and the territorial authority (if the territorial authority is taking part in the FAP scheme) each pay 25% of the agreed repair cost and the homeowner pays the remaining 50%. Under the FAP, the homeowner agrees not to sue the contributing territorial authorities and the Government or any other contributing parties. Homeowners can still pursue other liable non-contributing parties, such as builders, developers, and manufacturers of defective products.

7.13 Eligible homeowners must lodge claims with MBIE before 29 July 2016. The 10-year limit to lodge a weathertightness claim means that the forecast eligible claims will gradually reduce.

7.14 The Crown has provided $189 million for the FAP as at 30 June 2012.[32] This represents the Government's obligation to contribute 25% of agreed repair costs to eligible owners of leaky buildings. This is a significant decrease on the amount provided in 2011 and reflects a significant modification to the estimated take-up rate of homeowners entering the scheme. This is based on take-up rates during the first year and analysing prospective take-up rates further. There is still considerable uncertainty about the assumptions used to measure the provision because of limited experience with claims.

7.15 Thirty-eight local authorities have chosen to take part in the FAP; 29 territorial authorities have chosen not to.

32 See *Financial Statements of the Government of New Zealand for the year ended 30 June 2012*, page 88.

The kinds of claims that local authorities face

7.16 We identified three categories of claims that local authorities must consider when assessing their current and future exposure to liability for leaky building claims:

- Category one – claims that have been investigated and reviewed, where the total claim amount and the local authority's share have been confirmed;
- Category two – claims still being investigated and confirmed, with work to assess whether other available parties will share the liability and work to assess the costs; and
- Category three – claims that might be made against local authorities between now and the end of the statutory limitation period but that have not been lodged, including matters that might not yet have been identified by property owners.

7.17 Categories two and three continue to be of most concern to local authorities because of the associated high uncertainty. However, for residential properties, local authorities now have more historical information from recent claims and are able to more reliably estimate their liabilities. Liabilities for commercial buildings will be more difficult to estimate reliably until there is a history of claims.

Accounting for leaky building liabilities

7.18 The accounting standard that applies to leaky building liabilities is New Zealand Equivalent to International Accounting Standard 37: *Provisions, Contingent Liabilities and Contingent Assets* (NZ IAS 37). This standard provides the definitions and criteria to identify whether a liability should be accounted for as a provision or disclosed as a contingency. The most relevant element of the criteria for leaky building liabilities is assessing whether a liability that needs to be estimated can be calculated reliably enough to meet the definition of a provision.

7.19 Our guidance to auditors on the appropriate accounting treatment of claims was:

- Category one – a provision for the confirmed amount should be recorded in the financial statements;
- Category two – a provision for the estimated amount should be recorded in the financial statements; and
- Category three – a provision should be recorded in the financial statements if there is a reliable actuarial assessment; otherwise it should be disclosed as a contingent liability.

7.20 Our monitoring to 2009/10 found that identifying category 2 and category 3 claims was more difficult for local authorities than we had anticipated when we wrote our guidance in 2007. In our guidance, we assumed that an actuarial assessment, particularly if carried out by professional actuaries, would be enough to meet the requirements of NZ IAS 37 and allow accounting for the liability in the financial statements.

7.21 We found that, in many instances, estimates used to assess liabilities for category 2 and 3 claims, whether in-house or by a professional actuary, were not reliable enough to allow the resulting estimation to be accounted for as a provision in the financial statements. The argument to support this approach has been that the estimation processes were not reliable enough because too many variables apply to each leaky building. This has improved considerably as more historical data on claims is available. We note that the four local authorities have made estimates reliable enough to be accounted for as provisions as at 30 June 2012 and no longer have any quantified contingent liabilities for residential properties.

Our review of how the four local authorities accounted for leaky building liabilities

7.22 Overall, the provision for leaky home liabilities for the four local authorities decreased by $32 million between 2010/11 and 2011/12. The decrease is primarily attributed to a decrease of $39 million in Auckland Council's provision. Local authorities generally carried out significant reviews of their provisions during the year, mainly for the purposes of the estimates included in the 2012-22 long-term plans. The Financial Statements of the Government reflected the Government's decreased share of this liability, decreased in 2012 because of more reliable estimates of the uptake of the FAP.

7.23 Because of uncertainty about the number of properties with earthquake-related claims or potential future claims that will be repaired or demolished and rebuilt by insurers or will be abandoned, Christchurch City Council did not do an actuarial assessment of leaky home liabilities as at 30 June 2012. Christchurch City Council calculated its provision based on the estimated cost of known claims outstanding and based on the average actual settlement costs. The provision for leaky home liabilities was $4.3 million – $713,000 more than in June 2011.

7.24 Auckland Council's total provision for 2011/12 was $417 million. Of this amount, $123 million related to claims being managed through a resolution process. (These were category 1 claims – that is, claims that are nearing resolution and whose claim amount is more certain.) The remaining $294 million reflected claims that have been reported to Auckland Council or the Weathertight Homes Resolution Service (WHRS), and claims that are expected to be notified. Auckland Council completed an actuarial valuation on leaky building liabilities and included extensive disclosure of the assumptions applied in calculating its provision amount.

7.25 Wellington City Council's provision increased by $5.2 million compared to last year. In 2011, Wellington City Council began treating unreported claims as a provision instead of an unquantifiable contingent liability ($24 million), but this year's movement is simply a refinement of the provision estimate. The refinement reflects greater claims history and a better understanding of the FAP uptake.

7.26 Tauranga City Council included a provision for claims under the WHRS of $1.2 million and a provision for claims under the FAP scheme of $3.5 million. The $3.5 million provision reflected higher risk claims eligible under the FAP scheme because of the uncertainty surrounding this provision. The provision was based on an actuarial calculation.

7.27 Tauranga City Council was the only one of the four local authorities to record a quantified contingent liability of $1.1 million for less certain claims in 2011. However, in 2012, Tauranga City Council removed contingent liability, noting that it considered its provision was enough (the WHRS provision was increased by $730,000 during 2012) and that it considered most future claims would be under the FAP.

7.28 All of the four local authorities made reasonable disclosures for 2012.[33] We continue to encourage local authorities to ensure that they clearly present information about the calculation and assumptions about leaky building liabilities, including the effect on calculations of changes to the assumptions.

33 Auckland Council *Annual Report 2011/12*, Volume 3, pages 93 to 95 and 119; Christchurch City Council *Annual Report 2011/12*, pages 211 and 212; Tauranga City Council *Annual Report 2011/12*, pages 203 to 205 and 208; and Wellington City Council *Annual Report 2011/12*, pages 128 to 131 and 153.

Part 8
Our recent and ongoing work with local authorities

8.1 This Part discusses our performance audits and other reports of interest to local authorities that we published during 2012, namely:

- *Matters arising from the 2012-22 local authority long-term plans*;
- *Summary of our fraud survey results for local authorities*;
- *Auckland Council: Transition and emerging challenges*;
- *Roles, responsibilities, and funding of public entities after the Canterbury earthquakes*; and
- *Department of Conservation: Prioritising and partnering to manage biodiversity*.

8.2 The full reports are available on our website.

8.3 At the end of this Part is a summary of further work that we intend to report on during 2013.

Matters arising from the 2012-22 local authority long-term plans

8.4 The recently completed 2012 round of local authorities' long-term plans coincided with the *Better Local Government* reform, which seeks a leaner local government that is more in line with national economic needs.

8.5 In 2012/13, we are focusing on public entities' ability to meet the future needs of the nation. The report on long-term plans is our most significant contribution to that focus on future needs for local government.

8.6 At the heart of the 2012-22 long-term plans was local authorities' response to the new requirement to be clear on their financial strategy. A good financial strategy allows local communities to better assess the prudence and long-term financial sustainability of local authorities' plans.

8.7 Generally, local authorities have responded to this challenge. However, a question remains about what specific information in the long-term plans (and in the audited annual financial statements) is most helpful for informing judgements about the financial prudence and long-term financial sustainability of an individual local authority or of local authorities as a whole.

8.8 Views on what constitutes prudence and long-term financial sustainability differ and there are few agreed methods of analysis. As a result, it is difficult to be definitive about the state of an individual local authority or of local authorities as a whole.

8.9 Without a general consensus, we used nine specific indicators to help to describe local authorities' financial prudence. Figure 7 shows these indicators.

Figure 7
Indicators to help to understand local authorities' financial performance

Stability	Resilience	Sustainability
Actual to budgeted net cash flows from operations	Interest expense to debt	Capital expenditure to depreciation
Actual to budgeted debt	Interest expense to rates revenue	Renewals expenditure to depreciation
Actual to budgeted capital expenditure	Fixed costs to operating and investing cash outflows	Gross debt to total assets

8.10 The indicators are not an "audit test". We need consensus on how to better judge local authorities' financial prudence and, in the end, long-term financial sustainability. Although the indicators show our thinking to date, we welcome any opportunity to discuss their usefulness and framework and possible refinements or different approaches.

8.11 Overall, local authorities plan to live within their means and keep rate increases reasonable. They plan to raise more debt during the next 10 years to pay for capital expenditure, much of which will be to upgrade systems to meet new standards.

8.12 Many local authorities expect to repay some or all of this debt during the 10-year period of the long-term plans. Net income almost always stays positive, and local authorities obey the golden rule that they should borrow only to invest.

8.13 Local authorities have a diverse range of circumstances and community requirements, with specific demands. Local circumstances have led to arrangements that might appear unusual (for example, more debt than usual). However, on closer examination, these arrangements are generally fit for purpose.

8.14 There are some emerging differences between local authorities based on population size, reflecting their response to the influences and pressures they face. The differences suggest that further analysis is warranted within a wider debate on local authorities' performance.

8.15 We audited all the long-term plans. Three of our audit reports contained modified opinions. Eight audit reports contained emphasis-of-matter paragraphs, pointing out significant risks that our auditors considered were fundamental to helping local communities to understand the challenges and uncertainties that their local authorities face in achieving their plans.

8.16 None of the audit reports raised concerns about the financial prudence of local authorities' forecasts.

8.17 As part of the *Better Local Government* reform, the Local Government Efficiency Taskforce is considering the nature of planning, accountability, and decision-making of local authorities. We have offered our insights to the taskforce.

8.18 We have suggested that local authorities present a more strategic focus on the main matters (including prospective financial information and intentions about level of service), and provide access to supporting data and policies on their websites.

8.19 We continue to encourage local authorities to invest consistently in preparing shorter, clearer, and more informative long-term plans, so communities are able to contribute more effectively to discussions about each local authority's intentions.

Survey into fraud awareness, prevention, and detection in public entities

8.20 New Zealand has a "clean" image when it comes to fraud. This country consistently ranks highly in surveys that measure public trust in government and the effectiveness of systems and processes that deal with fraud and corruption. We attribute the general absence of systemic large-scale corruption in the private and public sectors to the integrity of our standards and controls, underpinned by strong and shared common values, within a small and cohesive society. Maintaining our integrity culture is our best way of keeping fraud at bay.

8.21 In June 2012, we reported on a survey we commissioned of fraud awareness, prevention, and detection that aimed to provide better insight into fraud in public entities.[34] The results of the survey confirm that public entities are strongly committed to protecting public resources.

Fraud survey results for local authorities

8.22 Local authorities have good anti-fraud frameworks – most respondents said that their local authority had a fraud policy, a clear policy on gifts, and almost all had a code of conduct for staff. Respondents were well aware of their local authorities' protected disclosures policy. Staff were confident that managers understood their responsibilities for preventing and detecting fraud. Most respondents said that their local authority encouraged staff to come forward if they saw or suspected fraud or corruption.

34 See *Fraud awareness, prevention, and detection in the public sector* (2012), on our website.

8.23 Thirty-eight percent of respondents were aware of at least one incident of fraud or corruption in their local authority within the last two years.

8.24 The most frequent types of fraud within local authorities were:

- theft of cash (36%);
- theft of plant, property, and equipment or inventory (17% combined);
- payroll fraud (9%); and
- false invoicing (7%).

8.25 Our report on the fraud survey results for local authorities is on our website.

Fraud survey results for airports, port companies, electricity distribution businesses, other local government, and CCOs

8.26 Respondents from these entities told us that their entities have some of the essentials in place. The entities:

- have codes of conduct;
- encourage staff to raise concerns; and
- have senior managers who understand their roles and responsibilities.

8.27 Local government – other and port company respondents could not recall any incidents of fraud in the last two years. For these reasons, local government – other and port companies are not included in the following discussion.

8.28 Thirty-two percent of the airport company respondents were aware of at least one incident of fraud or corruption in their airport within the last two years. The most frequent type of fraud for airports was theft of cash (40%).

8.29 Half of the respondents from electricity distribution businesses were aware of at least one incident of fraud or corruption in their entity within the last two years. The most frequent type of fraud for electricity distribution businesses was theft of inventory (29%).

8.30 Almost one in five CCO respondents were aware of at least one incident of fraud or corruption in their organisation within the last two years. CCOs experienced a wider range of fraud. The most frequent types of fraud within CCOs were:

- payroll fraud (21%);
- theft of cash (16%);
- theft of plant, property, and equipment, and inventory (27% combined);
- false invoicing (11%); and
- misuse of fuel cards (11%).

8.31 Our report on the fraud survey results for these entities is on our website.

Lessons for local authorities

8.32 One of our messages from this work is the need for local authorities to always report suspected or detected fraud to their auditor. All local authority staff need to recognise that "doing the right thing" means not keeping quiet about suspected or detected fraud in an effort to be fair to the person or people suspected of fraud.

8.33 "Doing the right thing" means speaking up, and that includes telling the appointed auditor about every suspected or detected fraud. We are not sure that this always happens and intend to monitor the extent of reporting to our auditors. Advising of a suspected or detected fraud is a sign that controls are working and that the environment supports employees voicing their concerns.

8.34 Using the information that auditors receive from public entities, we will continue to regularly update and share information about fraud incidents with local authorities. From this, it will be possible for people to see which sorts of controls or procedures are working to identify potential fraud in their workplaces or similar workplaces. We intend that the cumulative effect of this co-operation and sharing will be stronger controls and a cleaner public sector.

Auckland Council: Transition and emerging challenges

8.35 Creating a single local authority for Auckland was one of the most significant public sector reforms in recent years. The scale of the change and transition to Auckland Council was huge. It brought eight local authorities together, to create a new organisation with $32 billion in assets and a $3 billion annual budget, and 8000 staff from local authorities and CCOs.

8.36 Auckland Council (as a group) has complex and finely balanced governance arrangements and provides many important infrastructure and regulatory services that affect the daily lives of more than a third of New Zealanders. Auckland Council's strategy and planning affects national economic and social prosperity. Therefore, Auckland Council's governance and use of resources is of significant interest.

8.37 Two years on, we wanted to reflect on the transition and Auckland Council's emerging governance challenges. We hope that our report will be useful to those involved in the governance of the Council as an "outsider's" view of the matters and challenges. We hope that it will be useful for others contemplating such change. However, Auckland is unique and not all its changes or experiences will be relevant for others.

8.38 Through our work with Auckland Council, we see that a lot is happening. Those we interviewed reflected on the unified and integrated direction that has been achieved for Auckland through the Auckland Plan. Respondents told us that the enhanced Mayoral role and powers have invigorated and integrated Auckland Council's planning.

8.39 Although challenging, the tight transition arrangements gave Auckland Council momentum. Many people reinforced the importance of strong and principled leaders committed to working together and to building trust among the public, staff, and partners by being reliable.

8.40 Despite much potential for the transition to go wrong, it was managed well. The smoothness of the transition is a credit to the leadership and management of the Chief Executive, his executive leadership team, and the managers and staff of Auckland Council.

8.41 Everyone is committed to making the two-tier governance system of Auckland Council work as best they can. There are inherent tensions in the Council's governance arrangements that will need to be managed well and ways to strengthen governing body and local board relationships need to be found.

8.42 Auckland Council's governance relationships are evolving, with efforts to provide more guidance to CCOs about shareholders' expectations. We are not confident that the Council will be able to build the more future-orientated and trust-based culture it seeks by using more formal processes and mechanisms.

8.43 Being so large, Auckland Council will wrestle to communicate internally effectively. The Council still needs to understand and standardise the differing policies, regulations, service expectations, and performance it has inherited from the former councils.

8.44 To carry out decision-making openly and transparently, the governing body and local boards need to be supported by relevant, timely, and useful information that takes account of local, regional, and functional governance needs and perspectives.

8.45 In our view, Auckland Council and the Department of Internal Affairs should continue to liaise to consider whether legislative changes might be needed to provide for processes appropriate to Auckland.

8.46 Auckland Council, with support from the Independent Māori Statutory Board, needs to continue to find the most effective and efficient ways to get and consider the views of Māori in decision-making. The Independent Māori Statutory Board is working with clarity of focus and vigour on what it wants to achieve and how it thinks it can best contribute to the Council.

8.47 Auckland Council faces challenges to maintain momentum, support, and goodwill. It now rests on the Council, through its services, results, and work with others, to achieve the aspirations of the Auckland Plan and the intentions of the Auckland reforms.

Roles, responsibilities, and funding of public entities after the Canterbury earthquakes

8.48 The Canterbury earthquakes of 2010 and 2011 killed 185 people, damaged more than 100,000 homes, destroyed much of Christchurch's central business district, and badly damaged infrastructure. Although Canterbury has begun to recover, the recovery is likely to take many years to complete, and requires many public agencies, communities, non-governmental organisations, and private companies to work together.

8.49 In reporting on the recovery, we intend to look at four aspects:

- the roles and accountabilities of public entities;
- public funding of the recovery;
- public sector procurement; and
- the effect of the earthquakes on insurance in the public sector.

8.50 Our first report provided an objective view of how the recovery is being run. It described how the recovery is being carried out, the roles of agencies, how the recovery is being funded, and what the main risks and challenges are for the agencies involved and for Cantabrians.

8.51 The recovery calls for many public entities to work in new and challenging ways. The report shows that the administrative arrangements for the recovery are complex, reflecting a wide-ranging and challenging programme of tasks. The Canterbury Earthquake Recovery Authority (CERA) is responsible for leading and co-ordinating the work of many public entities. CERA cannot deliver the recovery alone. It must work with local councils, among others, to pursue local recovery agendas.

8.52 Our report encourages collaboration, specifically for all agencies involved to gain an understanding of their respective roles and responsibilities. There is a risk that, if there is a lack of clarity, work might not be mutually supportive, could lack direction, and could be wasteful because of duplication. We will continue to monitor the accountability arrangements for the recovery and the effective use of public spending.

8.53 The recovery is expensive. The Treasury estimates that the cost to the Crown will be about $13.5 billion. Christchurch City Council and other local authorities will continue to have significant expenses from the earthquakes. The rising cost of insurance has hit public entities hard.

8.54 As with our first report on the recovery, our future reports will highlight the challenges that local authorities face in the aftermath of a disaster. Local authorities need to be mindful of these challenges and consider how they are placed to cope if they face similar circumstances.

Department of Conservation: Prioritising and partnering to manage biodiversity

8.55 The Department of Conservation (DOC) is responsible for managing biodiversity on conservation land and waterways. DOC also provides support, advice, and funding to others who lead biodiversity management on private land.

8.56 The job of managing biodiversity on conservation land is far greater than the resources available. In 2012/13, DOC will spend about $202 million on managing biodiversity, allowing it to manage about one-eighth of our conservation land and about 200 of the 2800 threatened species.

8.57 DOC's ability to prioritise and partner with others is critical to effectively protecting indigenous biodiversity.

8.58 In our performance audit, we focused on:

- how well DOC has used information to prioritise resources;
- how well DOC has taken an integrated, strategic approach; and
- how effectively DOC works with other government and non-governmental agencies to manage indigenous biodiversity.

8.59 We found that DOC will need better data than it has. Knowing this, DOC has prepared a national approach and tools for prioritising work in managing species and ecosystems. The tools appear to be technically sound, but their effectiveness will depend on how successfully they are put into effect. Our audit highlighted several risks to this process.

8.60 DOC is one of the public entities that show signs of focusing on better integrating biodiversity management in central and local government. There were concerns about out-dated conservation management strategies and that activities that DOC has allowed on conservation land are not in line with conservation management strategies agreed with local communities.

8.61 We used eight case studies to look at how effectively DOC has worked with others to achieve biodiversity goals.

8.62 DOC was working well with some partners and less well with others. Some initiatives struggled to show tangible results despite years of DOC and its partners working together.

8.63 The detailed recommendations from *Department of Conservation: Prioritising and partnering to manage biodiversity* are available on our website.

Future work

8.64 During the coming year, we plan to report on our inquiry into Kaipara District Council's management of the Mangawhai community wastewater scheme. Paragraphs 8.65-8.83 describe other work we have planned for 2013 that could be of interest to local authorities.

Ageing population

8.65 The proportion of older people in the population is growing at a faster rate than ever before. This is resulting in a major change in the population structure. The number of New Zealanders aged 65 years or over will exceed one million by the late 2020s. The population's different profile will put different demands on public services, and present challenges and opportunities. In particular, there will be a significant effect on health and social services. More people over 65 will remain at work.

8.66 The *Political Declaration and Madrid International Plan of Action on ageing* (2002) sets out to address the opportunities and challenges of ageing in the twenty-first century. The Plan of Action includes at least 50 indicators to track progress. We are part-way through a project to find out whether we can get information on each of the indicators for our country and to answer questions, including whether the indicators are useful to us, and why. Many of the indicators cover topics that local government is concerned with, such as accessibility of transport, emergency planning, and access to telecommunications, crime, and policies that facilitate the employment of older persons.

8.67 We are progressively sharing our interim results for each indicator on our website. We hope that the final report will provide assurance about our country's preparations over the last 20-30 years to deal with an ageing population. However, it is possible that our report could raise more questions than it answers. If this is the case, we hope our report will stimulate discussion and change amongst public entities, the private sector, non-government organisations, and individuals.

Management of significant assets

8.68 Significant assets, such as infrastructure, underpin many essential community services. Usually, these assets comprise many components that together make up a network.

8.69 Although individual components have useful lives and require regular maintenance and eventual replacement, the network as a whole is expected to continue to deliver essential community services in the long term.

8.70 Public entities are responsible for managing their assets and typically do so through formalised asset management planning processes.

8.71 We intend to review the management of significant assets throughout central and local government. We asked our auditors to gather information about asset management as part of their 2011/12 annual audits of selected public entities.

8.72 Using the information collected, we hope to better understand:

- how entities describe and explain the services they are aiming to deliver;
- the condition of significant assets; and
- the extent of deferred maintenance and deferred renewals.

How well insured are public entities?

8.73 After the Canterbury earthquakes and other natural disasters, public entities are finding it increasingly difficult to secure adequate insurance for their assets at an affordable cost.

8.74 We intend to review the insurance cover throughout much of the public sector. We asked our auditors to gather information about insurance as part of their 2011/12 annual audits of public entities.

8.75 Using the collected information, we are interested in better understanding:

- the nature of insurance cover;
- the extent to which assets are uninsured;
- any significant policy exclusions that mean assets are not covered for certain types of events (for example, earthquakes and tsunamis);
- the proportion of claims that entities will not be able to recover (the excess under the insurance policy);
- the cost of insurance; and
- the main changes in insurance arrangements since 2010.

Local authorities' subsidiaries

8.76 The Auditor-General has an ongoing interest in the governance and accountability of CCOs and other subsidiaries and how effectively they deliver services on behalf of local authorities.

8.77 The number of such public entities has increased steadily, but there is little research or analysis available about the reasons for this or about how effective the entities are.

8.78 In some instances, high-profile governance matters have raised questions of interest for local government as a whole. We last looked at the governance of local government subsidiaries in 2001.[35] It is time for us to update this work.

8.79 In 2013/14, we intend to begin some analysis of CCOs and subsidiaries. We will look at how many there are, what they do, and, for the larger entities, their financial performance and how they are contributing to effective service delivery.

8.80 As part of this work, we will consider matters arising in the governance and accountability of CCOs and other subsidiaries and the sort of governance and accountability arrangements that are working well in the interests of effective service delivery.

8.81 Our aim is to then report to Parliament and local authorities on how well the statutory framework for governance and accountability of local government subsidiaries is working, including:

- accountability – who is accountable for CCOs and subsidiaries;
- alignment of strategic direction – how CCOs and subsidiaries fit within the overall Council strategy, and their awareness of that strategy and their role;
- appointment of directors, including whether councillors and officers are appointed;
- performance monitoring – including the value of the statement of intent framework and reporting, oversight arrangements, for example, council committees and holding companies;
- engagement and communication; and
- formal and informal accountability mechanisms.

8.82 We intend to look at case studies and report on common themes that arise. We plan to further consider the governance arrangements between the Auckland Council and its CCOs and in other metropolitan councils, including Dunedin City Council. Our work on the Delta Utility Services Limited inquiry discussed in Part 9 will contribute to our study of the Dunedin City Council group.

35 *Local Authority Governance of Subsidiary Entities*, available on our website.

8.83 We will also look at governance issues that arose in 2011 between Queenstown-Lakes District Council and its airport company. We intend to report on what is working well, and any issues or problems with the accountability and governance framework.

Part 9
Inquiries into local government

9.1 The Auditor-General is able to inquire into concerns about how public entities use resources. Our focus is on the way public entities use their resources, which can include financial, governance, management, and organisational matters. Parliament funds this discretionary function. Our Office is not a “complaints agency”, so is not an avenue for resolving individual complaints or concerns about how a public entity has handled a particular matter.

9.2 The Auditor-General gets inquiry requests from members of Parliament, public entities, and members of the public. Most of the inquiry requests we receive concern local government, including requests under the Local Authorities (Members’ Interest) Act 1968 (LAMIA), where we have a specific role to help local authorities and councillors manage financial conflicts of interest and to investigate complaints.

9.3 We look at each non-LAMIA request to decide the most appropriate way to proceed. We identify whether the matters raised suggest:

- financial impropriety;
- problems with the organisation’s overall governance or management; or
- other systemic or significant concerns that could be important for the organisation, the field in which it operates, or the general public.

9.4 We consider how serious the matters are, whether we have the resources and technical skills to consider them properly, and whether the matters could be better addressed through other avenues.

9.5 Some of the requests we receive show that many people do not understand our role and limits. For example, we get many requests asking us to:

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

9.6 In many instances, 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.

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

9.8 Most of the requests about local government in 2011/12 were from individual ratepayers or ratepayer groups, but the requests that resulted in our agreeing to carry out major inquiries into local government were from local authorities.

9.9 We briefly outline below the major local government inquiries that we completed in 2012 or are working on. The terms of reference for the major inquiries that are under way, and the completed inquiry reports, are available on our website.

Completed inquiries

9.10 In 2011/12, we completed 154 inquiries into local government. Since 1 July 2012, we have received more than 100 requests. We usually have about 20 inquiry matters open at a time.

9.11 We responded to 54 LAMIA matters in 2011/12, and provided a comprehensive submission to the Department of Internal Affairs in response to a discussion paper on options for reform of the LAMIA.

9.12 Our general inquiries workload spans a range of local government activity. The inquiry requests that we received concerned matters such as:

- local authorities' long-term plans;
- major spending proposals for significant projects, such as the Waikato Velodrome;
- operational matters for infrastructure projects, such as sewerage and wastewater schemes;
- financial management and financial prudence, including debt;
- matters of ongoing concern to ratepayers, such as the Dunedin stadium;
- financial and non-financial conflicts of interest; and
- CCOs' decisions or activities.

9.13 In many instances, we declined to inquire but asked the complainant to contact the local authority with their question or concern. This was especially so where the local authority was consulting on the matter in the long-term plan process. In some instances, we did not carry out a formal inquiry but passed the information on to our appointed auditor of the local authority for consideration and any appropriate action during the annual financial audit. These routine inquiry requests must be dealt with carefully to work out the most appropriate response.

9.14 We tend to get more inquiry requests about the larger metropolitan councils, with the most inquiry requests coming from Auckland and Christchurch. This is to be expected given those cities' larger populations and the stronger interest in local government in Auckland after the local government reforms and heightened interest in actions of public entities responsible for recovery and rebuilding in Christchurch after the earthquakes. A few smaller local authorities generated more complaints than usual because of high public interest in matters such as proposals to make significant changes to rates.

9.15 A few councillors complain reasonably often to us about their own councils. However, we usually consider that councillors should raise their concerns with the chief executive or at the Council table.

More significant inquiries

9.16 In April 2012, we completed an inquiry into how Christchurch City Council managed the potential for its chief executive to have a conflict of interest as a result of his being a director of the local government insurance company, Civic Assurance. We carried out this inquiry at the request of a Christchurch City Council councillor and Christchurch City Council. We considered how Christchurch City Council managed the need for someone other than the chief executive to be involved in arranging the Council's insurance and whether his two roles were compatible.

9.17 In August 2012, we completed an inquiry into a dispute between Far North District Council and its Mayor about rates and charges payable by the Mayor's company. We carried out this inquiry at the request of Far North District Council and the Mayor. For some time, the two had been in dispute about the amount that the Mayor's company owed for a Kerikeri subdivision that his company developed. The two parties were unable to resolve the complex matters involved. We made findings on the amounts owing to allow Far North District Council and the Mayor to resolve the dispute.

Major inquiries under way

Kaipara District Council

9.18 In March 2012, at Kaipara District Council's request, we agreed to begin a major inquiry into the Mangawhai Community Wastewater Scheme. This is a matter of high interest to Kaipara ratepayers, the Government, and local government as a whole.

9.19 We are looking at how Kaipara District Council prepared, put into place, and oversaw the Mangawhai Community Wastewater Scheme, including:

- planning and decision-making, including how well the Council complied with policies and strategies and the legal and other requirements for decision-making;
- the governance, management, and contracting arrangements for the project;

- financial management, monitoring, and reporting;
- funding for the scheme, including the use and setting of rates, borrowing, and development contributions; and
- the overall suitability and cost-effectiveness of the scheme that has been built.

9.20 The inquiry will consider the role that we played as Kaipara District Council's auditor and the roles of other relevant agencies.

9.21 This is a significant inquiry and is taking considerable time and resources. We hope to complete it in the next few months.

Delta Utility Services Limited

9.22 In November 2012, we agreed to a request from Dunedin City Council to look at decisions made by one of its CCOs – Delta Utility Services Limited (Delta) – to invest in residential property developments at Luggate, near Wanaka, and at Jacks Point, Queenstown.

9.23 The work will look at:

- how and why Delta decided to acquire an interest in the joint venture at Luggate and to buy the land at Jacks Point, including how it considered risks;
- compliance with legislation, including the Act and the Companies Act 1993;
- the identification and management of any conflicts of interests; and
- any consultation with or involvement by Dunedin City Council in the transactions.

9.24 We hope that this work will contribute to a broader study of CCOs that we intend to carry out (see paragraphs 8.76-8.83).

Part 10
About the audit reports issued in 2012

10.1 In this Part, we provide an overview of the audit results for local authorities. We set out the nature of our audit reports and explain the key concepts and frameworks applied in determining the appropriate form of report in Appendix 2.

10.2 We issued 647 audit reports for local government entities during the year ended 31 December 2012.[36] Of the 647 reports, 559 were standard audit reports and 88 were non-standard audit reports.

10.3 The 647 reports do not include the 77 audit reports we issued on local authorities' 2012-22 long-term plans. The audit results of the long-term plans are set out in our report, *Matters arising from the 2012-22 local authority long-term plans*.

10.4 Paragraphs 10.5-10.20 summarise the standard and non-standard audit reports that we issued.[37]

Local authorities

10.5 For 2011/12, we issued 73 standard audit reports and six non-standard audit reports for local authorities.

10.6 The following summarises the six non-standard audit reports.[38] We issued:

- three audit reports with unmodified opinions that included an "emphasis of matter" paragraph highlighting disclosures about deficiencies in the 2009-19 long-term plans;
- one audit report with an unmodified opinion for the year ended 30 June 2011 that included an "emphasis of matter" paragraph drawing attention to a range of matters;
- one modified (qualified) opinion because we could not get appropriate audit evidence to support the estimates of the time taken to respond to complaints and requests for service; and
- one modified (disclaimer) opinion because of the significant damage to this local authority's assets caused by the Canterbury earthquakes.

36 Local authorities, most CCOs, airports, port companies, other local government miscellaneous entities, administering bodies and boards, and local authority sinking fund commissioners have a 30 June balance date. Energy companies, licensing trusts, and cemeteries have a 31 March balance date. Fish and Game Councils have a 31 August balance date, and other entities, including some CCOs and other local government miscellaneous entities, have a balance date in March, August, October, or December.

37 The figures for the number of audit reports may include audit reports that relate to more than one financial period; for example, for the year ended 30 June 2011 and 30 June 2012. In most instances, we issue an audit report for each financial period.

38 This number includes two audit reports that related to previous financial periods.

Council-controlled organisations

10.7 We issued 158 standard audit reports and 32 non-standard audit reports of council-controlled organisations for the year.

10.8 The following summarises the 32 non-standard audit reports.[39] We issued:

- 15 audit reports with unmodified opinions that included “emphasis of matter” paragraphs highlighting disclosures because of one of the following matters:
  - an entity’s disestablishment or expected disestablishment; or
  - the absence of a statement of performance because the entity was inactive; or
  - in relation to the appropriate use of the going concern assumption;
- four modified (qualified) opinions because we could not get enough assurance on the completeness of all the revenue and/or expenditure of the entities;
- six modified (adverse) opinions because of the failure to recognise and depreciate museum collection assets of the entities;
- two modified (adverse) opinions because we disagreed with performance measures and targets that the entities had used to report performance that were not set out in advance in their statements of intent;
- two modified (adverse) opinions for the two years ended 30 June 2012 because this entity reported against performance measures and targets that were not set out in advance in its statements of intent; and
- three modified (disclaimer) opinions because of the significant damage to assets caused by the Canterbury earthquakes.

Energy companies and their subsidiaries

10.9 We issued 67 standard audit reports and four non-standard audit reports of energy companies and their subsidiaries for the year.

10.10 The following summarises the four non-standard audit reports.[40] We issued:

- one audit report with an unmodified opinion that included an “emphasis of matter” paragraph drawing attention to the entity’s disclosures relating to some serious financial difficulties;
- one audit report with an unmodified opinion that included an “emphasis of matter” paragraph drawing attention to the entity’s disclosures about the sale of its electrical contracting and the Wellington linework business units;
- one modified (disclaimer) opinion because we could not conclude whether the entity’s non-financial performance targets gave a true and fair view of its achievements; and

39 This number includes nine audit reports that related to previous financial periods.

40 This number includes two audit reports that related to previous financial periods.

- one modified opinion because we could not get enough assurance about the accuracy of some of the entity's non-financial performance information.

Airports and their subsidiaries

10.11 We issued 20 standard audit reports, and one non-standard audit report for airports and their subsidiaries for the year.

10.12 We issued one modified (qualified) opinion to an entity because it did not report performance information for the year ended 30 June 2010.

Port companies and their subsidiaries

10.13 We issued 30 standard audit reports for port companies and their subsidiaries for the year. We did not issue any non-standard reports for port companies or their subsidiaries.

Licensing trusts and their subsidiaries

10.14 We issued 33 standard audit reports and nine non-standard audit reports for licensing trusts and their subsidiaries for the year.

10.15 The following summarises the nine non-standard audit reports.[41] We issued:

- six audit reports with unmodified opinions that included "emphasis of matter" paragraphs drawing attention to disclosures outlining the disestablishment or expected disestablishment of the entities;
- two modified (disclaimer) opinions to one licensing trust because its financial statements were not prepared in keeping with the New Zealand equivalents to International Financial Reporting Standards for the two years ended 31 March 2011; and
- one modified (qualified) opinion to one entity because we were unable to get enough assurance on the completeness of its revenue.

Miscellaneous other local government entities

10.16 We issued 53 standard audit reports and four non-standard audit reports for miscellaneous other local government entities for the year.

10.17 The following summarises the four non-standard audit reports. We issued:[42]

- three reports with unmodified opinions that included "emphasis of matter" paragraphs drawing attention to disclosures relating either to the use of the going concern assumption or to the disestablishment or expected disestablishment of the entities; and

41 This number includes four audit reports that related to previous financial periods.

42 This number includes one audit report that related to a previous financial period.

- one modified (qualified) opinion to an entity for the year ended 30 June 2010 because we were unable to verify that the entity had properly recorded all revenue.

Small entities

10.18 We issued 125 standard audit reports, and 32 non-standard audit reports for small entities [43] for the year.

10.19 The following summarises the 32 non-standard audit reports.[44] We issued:

- two audit reports with unmodified opinions to an entity for the two years ended 30 June 2012 that included an “emphasis of matter” paragraph drawing attention to disclosures outlining the fundamental uncertainties about the validity of the going concern assumption;
- one audit report with an unmodified opinion to an entity for the year ended 30 June 2009 that included an “emphasis of matter” paragraph drawing attention to the use of the disestablishment basis in preparing the financial statements;
- five modified (disclaimer) opinions to an entity for the five years to 31 March 2011 because we were unable to get enough assurance about how completely it had recorded revenue; and
- 24 modified (qualified) opinions because we were unable to get enough assurance about the completeness of revenue and/or expenditure from these entities.

10.20 In Part 11, we provide details of the non-standard audit reports that we issued.

43 This is made up of Administering Bodies and Boards, Cemeteries, Fish and Game Councils, and Local Authority Sinking Fund Commissioners.

44 This number includes 29 audit reports that related to previous financial periods.

Part 11
Details of the non-standard audit reports issued in 2012

11.1 We issued 647 audit reports for local government entities in 2012. Of these, 559 audit reports were standard, and 88 were non-standard. This Part is a summary of the 88 non-standard audit reports.

Unmodified opinions with "emphasis of matter" paragraphs

11.2 We drew attention to disclosures in the financial statements of Kaipara District Council (for 2010/11) about:

- Kaipara District Council having going concern issues and risks to financial viability, because it was dependent on the continuing financial support of bankers and getting enough development contribution revenue to help service debt, addressing legal matters associated with past targeted rates, adopting and putting into effect its 2012-22 long-term plan, and being able to collect all rates levied so as to manage its cash flows;
- legal matters associated with targeted rates that lacked proper statutory authority, given errors in the way they were set and the contingent liability that would crystallise should any legal challenge result in Kaipara District Council having to refund rates to the ratepayers;
- the restatement of comparative information relating to the Mangawhai Community Wastewater Scheme that affected 2007/08, 2008/09, and 2009/10;
- the Auditor-General agreeing to proceed with an inquiry into Kaipara District Council's preparing, building, and overseeing the Mangawhai Community Wastewater Scheme; and
- the Minister of Local Government appointing a review team in June 2012 to review Kaipara District Council's governance processes and financial management, resulting in the appointment of Commissioners to take over the functions and duties of the Council. The Minister was yet to announce the appointment of Commissioners.

11.3 Kaipara District Council breached the law by failing to meet the statutory reporting deadline. We completed our audit and issued our audit report on Kaipara District Council's 2010/11 annual report on 29 August 2012.

11.4 We drew attention to disclosures in the financial statements of Tararua District Council and Group (for 2010/11) outlining what Tararua District Council had done to resolve matters identified in the audit report on its 2009-19 long-term plan, which contained a qualified opinion because we could not get enough information to support forecast expenditure and service for water and waste infrastructure. We were satisfied that Tararua District Council had resolved the matters and that the forecasts and performance framework contained in the long-term plan provide an appropriate basis for a meaningful assessment of Tararua District Council's performance.

11.5 We drew attention to disclosures outlining that deficiencies that had previously been identified in the performance frameworks contained in the long-term plans had been resolved and that the enhancements to the performance frameworks should be used to assess the performance of:

- Central Otago District Council (for 2011/12); and
- Tararua District Council and Group (for 2011/12).

11.6 We drew attention to the serious financial difficulties and resulting uncertainties about the appropriateness of the use of the going concern assumption in our audit reports on:

- Inframax Construction Limited (for 2011/12), which is a subsidiary of Waitomo District Council; and
- Pulse Utilities New Zealand Limited and Group (for 2011/12), which is a subsidiary of Buller Electricity Limited.

11.7 We drew attention to disclosures in the financial statements (for 2011/12) of Linework and Stones Limited. The company is a subsidiary of Electra Limited. The financial statements referred to the approval to sell the company's electrical contracting and the Wellington linework business units and the merger of the company with its parent company after the end of the year.

11.8 We drew attention to disclosures in the financial statements (for 2011/12) of Dunedin City Holdings Limited and Group, a subsidiary of Dunedin City Council, which referred to the uncertainties resulting from the company's investment in a subsidiary company.

11.9 We drew attention to disclosures that set out the fundamental uncertainties about the validity of the going-concern assumption for two entities:

- Central Plains Water Trust (for 2011/12), which is a trust set up by Selwyn District Council and Christchurch City Council; and
- Ruawhata Public Hall Board (for 2010/11 and 2011/12).

11.10 We drew attention to disclosures about outstanding claims provision and reinsurance, and the appropriateness of the going concern assumption for two entities:

- New Zealand Mutual Liability Riskpool (for 2011/12); and
- New Zealand Local Authority Protection Programme Disaster Fund (for 2011/12).

11.11 We drew attention to the disclosures outlining that 12 entities had appropriately not used the going concern assumption because they were or were about to be disestablished:

- City of Manukau Education Trust, which is a trust controlled by the Auckland Council (for 2011/12);
- East Otago Community Sports and Cultural Centre Trust (for 2011/12);
- Hawke's Bay Regional Council Sinking Fund Commissioners (for 2008/09), which was disestablished on 30 June 2009;
- Metrowater Community Trust (for 2010/11), which was disestablished on 21 December 2011;
- Northland Regional Council Community Trust (for 2011/12), which was controlled by Northland Regional Council and disestablished on 1 July 2012;
- Southland Flood Relief Fund (for 2011/12), which was disestablished on 30 August 2011;
- Taranaki Disaster Relief Trust (for 2011/12), which was expected to be disestablished before 30 June 2013;
- TDC Holdings Limited and Group (for 2011/12), which is a subsidiary of Taranaki District Council;
- Trust House Charitable Trust (for 2011/12);
- The Trusts Charitable Foundation Incorporated (for 2011/12), which is a trust controlled by Trust House Charitable Trust;
- Wainuiomata Licensing Trust and Group (for the nine years to 31 March 2011 and 2011/12); and
- Wainuiomata Licensing (Charitable) Trust (for the nine years ended 31 March 2011 and 2011/12), which is a trust controlled by Wainuiomata Licensing Trust.

11.12 We drew attention to the fact that a statement of service performance had not been included in the annual report because the following entities were inactive:

- Grow Rotorua Limited (for the three months to 30 June 2012), which is a subsidiary of Rotorua District Council;
- Rotorua District Council Holdings Limited (for 2009/10, 2010/11, and 2011/12), which is a subsidiary of Rotorua District Council;
- Tauwhareparae Forests Limited (for 2011/12), which is a subsidiary of Gisborne District Council; and
- Westland Nature Trust (for 2011/12), which is a trust controlled by Westland District Council.

Modified opinions

Disclaimers of opinion

11.13 During 2012, we expressed disclaimers of opinion on the financial or non-financial information of seven public entities.

11.14 We expressed a disclaimer of opinion on the annual report of Christchurch City Council and Group for 2011/12 because we were unable to form an opinion on the Christchurch City Council and Group's financial statements due to the significant damage to Christchurch City Council's assets caused by the Canterbury earthquakes. Christchurch City Council could not account for the effect of the earthquakes because it could not estimate the costs to repair assets. Specifically:

- we could not get enough assurance that the value of property, plant, and equipment assets (valued at fair value) was correct, because there was no market evidence available to carry out a revaluation in keeping with the requirements of New Zealand Equivalent to International Accounting Standard 16: *Property, Plant and Equipment* (NZ IAS 16);
- although there had been a material movement in the replacement costs for infrastructure assets (valued using depreciated replacement cost), no revaluations could be performed and appropriate replacement cost rates could not be worked out reliably enough;
- the surplus for the year for the Christchurch City Council and Group does not reflect the total losses from writing off irreparable assets, and the other comprehensive income does not reflect the total impairment of damaged but reparable assets and revaluation movements for assets that should be revalued;
- we could not get enough assurance that the value of property, plant, and equipment of Christchurch City Council's subsidiary Vbase Limited was correct, because there was no market evidence available to support a reliable fair value for land and buildings, there was not enough reliable evidence to support impairment loss (which is included in the group financial statements), and the earthquakes significantly damaged Vbase Limited's assets; and
- the comparative information presented in the 30 June 2012 financial statements could not be relied on.

11.15 Although we could not form an opinion on the Christchurch City Council and Group's financial statements as a whole, other than the statement of cash flows, we were able to get enough audit evidence for the information included in them, other than:

- the carrying amount of property, plant, and equipment, asset revaluation reserves, and retained earnings in the balance sheet;

- the related impairment losses, loss on disposals, and depreciation charged to profit/loss in the statement of comprehensive income; and
- the related property, plant, and equipment valuation gains/losses and the impairment losses charged to other comprehensive income in the statement of comprehensive income.

11.16 Our audit of the Christchurch City Council and Group was limited because we could not get enough audit evidence to support the "what did it cost" sections of the other information and the associated variance explanations for 2011/12 and the related comparative information. We drew attention to the disclosure in the annual report regarding Christchurch City Council reporting against some levels of service for the year but not against all levels of service in the long-term plan.

11.17 We expressed similar disclaimer of opinions on two subsidiaries of Christchurch City Council because of the effect of the Canterbury earthquakes on land and buildings and investment properties:

- Tuam Limited for 2011/12; and
- Vbase Limited and Group for 2010/11 and 2011/12.

11.18 We expressed a disclaimer of opinion on the statement of service performance of Counties Power Limited and Group for 2011/12 because we could not conclude whether the non-financial performance targets gave a true and fair view of the company and group's achievements measured against the performance targets adopted for the year.

11.19 We expressed a disclaimer of opinion on the financial statements of Hawarden Licensing Trust for 2009/10 and 2010/11 because the Trustees did not prepare the financial statements in keeping with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The Sale of Liquor Act 1989 requires the Trustees to prepare the Trust's financial statements in keeping with generally accepted accounting practice (GAAP) in New Zealand. Because the Trust's financial statements were not prepared in line with NZ IFRS, they did not comply with GAAP and we were unable to form an opinion about whether the financial statements fairly reflected the Trust's financial position as at 31 March 2010 and 31 March 2011 and the results of operations for each of the years ended on those dates.

11.20 We expressed disclaimers of opinion on the financial statements of Matata Cemetery for 2006/07, 2007/08, 2008/09, 2009/10, and 2010/11 because the Trustees had limited controls over some revenue and inadequate supporting documents for payments. As a result, we could not get enough evidence to confirm the completeness of revenue or payments. The Trustees failed to comply with the Burial and Cremation Act 1964 in 2007/08 because money was banked into the Secretary's bank account and not into the Cemetery's bank account.

Adverse opinions

11.21 In 2012, we expressed adverse opinions on the financial or non-financial information of seven public entities.

11.22 We expressed adverse opinions because four public entities did not recognise their museum collection assets or the associated depreciation expense, which is a requirement of generally accepted accounting practice in New Zealand for:

- (for 2010/11 and 2011/12) The Canterbury Museum Trust Board;
- (for 2011/12) Otago Museum Trust Board;
- (for 2009/10 and 2010/11) Far North Museum Trust; and
- (for 2011/12) Southland Museum and Art Gallery Board Incorporated, which is an entity associated with Gore District Council, Invercargill City Council, and Southland District Council.

11.23 We expressed adverse opinions for three entities that reported against performance measures and targets in their statements of service performance that had not been set out in advance in their statement of intent:

- (for 2010/11 and 2011/12) Invercargill Venue and Events Management Limited – this subsidiary of Invercargill City Council also broke the law by failing to prepare a statement of intent by 30 June 2011 for the period beginning 1 July 2011;
- (for 2011/12) Crops for Southland Incorporated Society, an entity associated with Gore District Council, Invercargill City Council, and Southland District Council; and
- (for 2010/11) The World Buskers Festival Trust, which is a trust controlled by Christchurch City Council.

Qualified opinions

11.24 During 2012, we expressed qualified opinions on the financial or non-financial information of 19 public entities. We express a qualified opinion when there is a disagreement with the treatment or disclosure of an issue in the financial statements or when we cannot get enough audit evidence about a matter.

11.25 We expressed a qualified opinion because we could not get enough evidence to support the reported performance of particular performance measures for Grey District Council (for 2011/12) because the Council did not collect data for these performance measure.

11.26 We expressed a qualified opinion (for 2009/10) because Titanium Park Limited, which is a subsidiary of Waikato Regional Airport Limited, did not report performance information that reflected achievements against performance targets as required by the Local Government Act 2002.

11.27 We expressed a qualified opinion (for 2011/12) because our audit of Alpine Energy Limited and Group, which a subsidiary of Timaru District Council, was limited – we could not get enough assurance about the accuracy of some of the non-financial performance information.

11.28 We expressed a qualified opinion (for 2009/10) because the comparative information for East Otago Community Sports and Cultural Centre Trust, a trust controlled by Dunedin City Council, was limited – in the previous year, we could not verify that all revenue was properly recorded.

11.29 We expressed qualified opinions because we could not get enough assurance about the completeness of revenue and/or expenditure for the following entities:

- Tauranga City Investments and Group (for 2011/12), which is a subsidiary of Tauranga City Council;
- Tauranga City Aquatics Limited (for 2011/12), which is a subsidiary of Tauranga City Council;
- Tauranga City Venues Limited (for 2011/12), which is a subsidiary of Tauranga City Council;
- The World Buskers Festival Trust (for 2011/12), which is a trust controlled by Christchurch City Council;
- Te Kauwhata Licensing Trust (for 2011/12);
- Mapiu Recreation Centre (for 2009/10);
- Mataroa Hall Board (for 2010/11 and 2011/12);
- Millerton Hall Board (for 2009/10);
- Nelson Creek Recreation Reserve Board (for 2007/08);
- Ohau Hall Board (for 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11, and 2011/12);
- Papanui Hall Board (for 2008/09, 2009/10, and 2010/11);
- Ruakaka Central Domain Board (for 2010/11);
- Taurikura Hall Board (for 2010/11);
- Waikiekie Domain Board (for 2005/06, 2006/07, 2007/08, 2008/09, and 2009/10); and
- Rai Valley Cemetery Trustees (for 2009/10 and 2010/11).

Appendix 1
A guide to the New Financial Reporting Framework for public entities

	Public sector for-profit entities with reporting periods beginning on or after 1 December 2012		Public sector public benefit entities with reporting periods beginning on or after 1 July 2014	
	Entities	**Accounting Standards**	**Entities**	**Accounting Standards**
Tier 1	Expenses >$30m or publicly accountable†	NZ IFRS	Expenses >$30m or publicly accountable†	PBE Accounting Standards
Tier 2	Expenses ≤ $30m and not publicly accountable† *Can elect to report as a tier 2 entity*	NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR)	Expenses >$2m and ≤ $30m and not publicly accountable† *Can elect to report as a tier 2 entity*	PBE Accounting Standards Reduced Disclosure Regime
Tier 3	Not publicly accountable† and either all of its owners are members of the entity's governing body or not large.Δ If an entity's parent or ultimate controlling party has the coercive power to tax, rate, or levy, it must satisfy the not largeΔ criterion. *Can elect to report as a tier 3 entity*	NZ IFRS Differential Reporting* (NZ IFRS Diff Rep)	Expenses ≤$2m which are not in tier 4 and not publicly accountable† *Can elect to report as a tier 3 entity*	PBE Simple Format Reporting Standard – Accrual
Tier 4	Applied "old GAAP" at 30 June 2011, not publicly accountable†, not required to file financial statements under section 19 of the Financial Reporting Act 1993, and not large.Δ *Can elect to report as a tier 4 entity*	Old GAAP*	All entities permitted by law to use cash accounting *Can elect to report as a tier 4 entity*	PBE Simple Format Reporting Standard – Cash

* Transitional tiers will be removed when certain financial reporting legislative changes come into force. The timing of this is uncertain.

† Publicly accountable has a specific meaning within the framework that is narrower than its general meaning.

Δ Large – An entity is large if it exceeds two of total income of $20m, total assets of $10m, or 50 employees.

Appendix 2
Deciding on the form of an audit report

Audit reports

An audit report is addressed to the readers of an entity's financial and non-financial information. All public entities are accountable to Parliament for their use of public money and their use of any statutory powers or other authority given to them by Parliament.

This Appendix sets out the nature of our audit reports and explains the main concepts and frameworks we apply to deciding the appropriate form of an audit report.

Non-standard audit reports

A non-standard audit report is one that contains:

- a modified opinion; and/or
- an "emphasis of matter" or an "other matter" paragraph.[45]

A modified opinion follows:

- a misstatement about the treatment or disclosure of a matter in the financial and/or non-financial information; or
- a limitation in scope – this may happen when the appointed auditor cannot get enough appropriate evidence to support, and so cannot express, an opinion on the financial or non-financial information or a part of the financial or non-financial information.

There are three types of modified opinion (each explained below):

- an "adverse" opinion;
- a "disclaimer of opinion"; and
- a "qualified opinion".

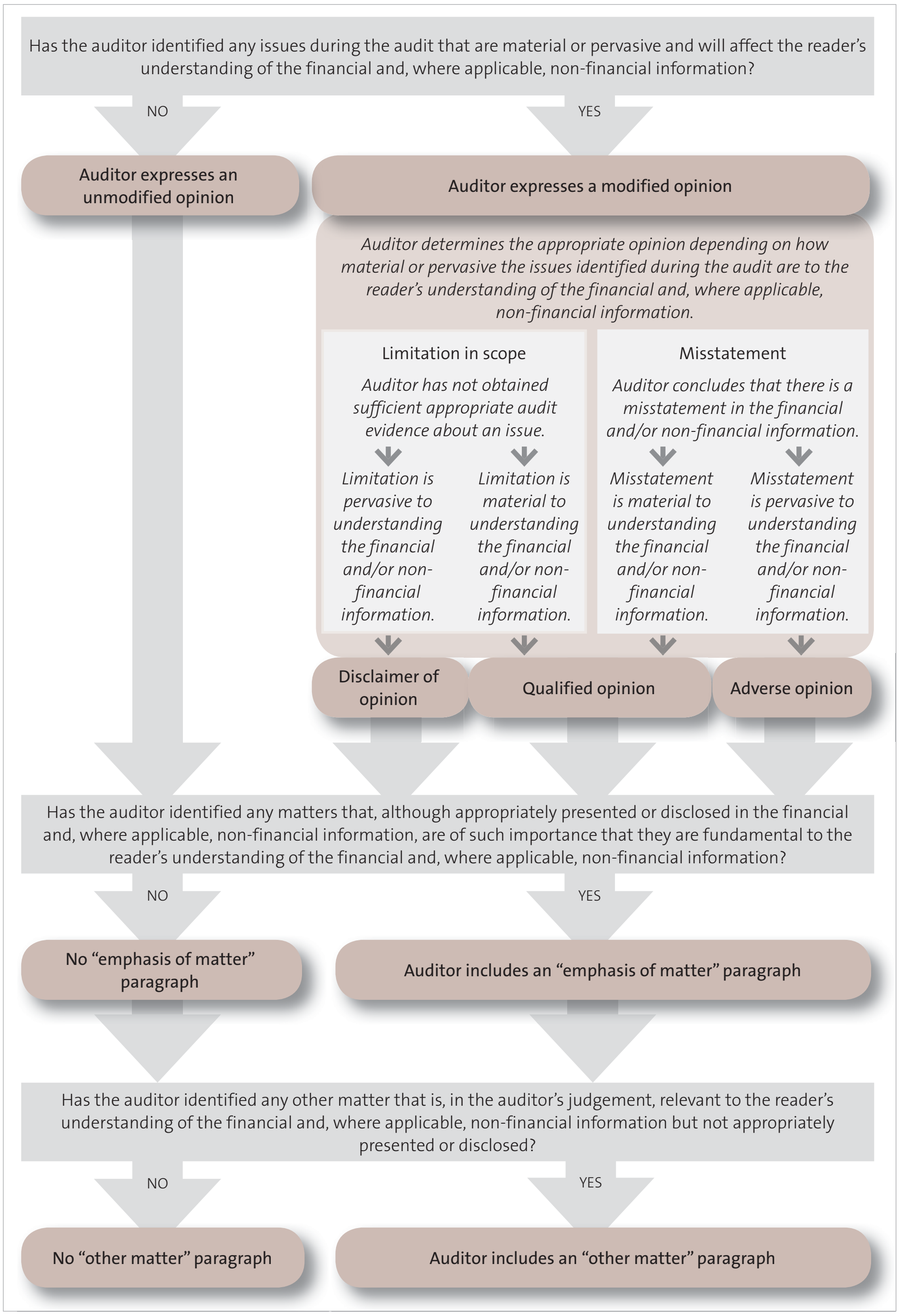
The appointed auditor will include an "emphasis of matter" paragraph or "other matter" paragraph in the audit report to draw attention to matters such as:

- fundamental uncertainties;
- breaches of law; or
- concerns about probity or financial prudence.

The appointed auditor has to include an "emphasis of matter" paragraph or an "other matter" paragraph in the audit report in such a way that it cannot be mistaken for a modified opinion.

45 A non-standard audit report is issued in keeping with the requirements of the New Zealand equivalents to the International Standards on Auditing No. 705: *Modifications to the Opinion in the Independent Auditor's Report* and/or No. 706: *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Deciding on the appropriate form of an audit report



Note: This flowchart is based on the requirements of the New Zealand equivalents to the International Standards on Auditing No. 700: *Forming an Opinion and Reporting on Financial Statements*; No. 705: *Modifications to the Opinion in the Independent Auditor's Report*; and No. 706: *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

The diagram in this Appendix outlines the decisions that an appointed auditor has to make when considering the appropriate form of an audit report.

Adverse opinions

An adverse opinion, the most serious type of non-standard audit report, is expressed when the appointed auditor, having got enough appropriate audit evidence, concludes that misstatements, individually or together, are material and pervasive to the financial and/or non-financial information.

Disclaimers of opinion

A disclaimer of opinion is expressed when the appointed auditor is unable to get enough appropriate audit evidence on which to base the opinion (that is, a limitation in scope), and the appointed auditor concludes that the possible effects on the financial and/or non-financial information of undetected misstatements, if any, could be material and pervasive.

A disclaimer of opinion is expressed when, in extremely rare circumstances involving multiple uncertainties, the appointed auditor concludes that, notwithstanding having got enough appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements and/or non-financial performance information because of the potential interaction of the uncertainties and their possible cumulative effect on the financial and/or non-financial information.

Qualified opinions

A qualified opinion is expressed when the appointed auditor, having got enough appropriate audit evidence, concludes that misstatements, individually or together, are material, but not pervasive, to the financial and/or non-financial information.

A qualified opinion is expressed when the appointed auditor cannot get enough appropriate audit evidence on which to base the opinion, but the appointed auditor concludes that the possible effects on the financial and/or non-financial information of undetected misstatements, if any, could be material but not pervasive.

"Emphasis of matter" paragraphs

In certain circumstances, it may be appropriate for the appointed auditor to include further comments in the audit report to draw readers' attention to a matter that, in the appointed auditor's professional judgement, is fundamental to their understanding the financial and/or non-financial information. These comments will be included in the audit report in an "emphasis of matter" paragraph, provided the appointed auditor has enough appropriate audit evidence that the matter is not materially misstated in the financial and/or non-financial information.

"Other matter" paragraphs

In certain circumstances, it may be appropriate for the appointed auditor to communicate a matter that is not adequately presented or disclosed in the financial and/or non-financial information because, in the appointed auditor's professional judgement, the matter is relevant to readers' understanding of the financial and/or non-financial information. The additional comments will be included in the audit report in an "other matter" or a similarly titled paragraph.

Publications by the Auditor-General

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

- Draft statement of intent 2013–2016
- Crown Research Institutes: Results of the 2011/12 audits
- Inquiry into decision by Hon Shane Jones to grant citizenship to Mr Yang Liu
- Ministry for Primary Industries: Preparing for and responding to biosecurity incursions
- Inquiry into the Government's decision to negotiate with SkyCity Entertainment Group Limited for an international convention centre
- New Zealand Police: Enforcing drink-driving laws
- New Zealand Defence Force: The civilianisation project
- Effectiveness and efficiency: Stories from the public sector
- Department of Conservation: Prioritising and partnering to manage biodiversity
- Auckland Council: Transition and emerging challenges
- Matters arising from the 2012-22 local authority long-term plans
- Education sector: Results of the 2011 audits
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Third monitoring report
- Annual Report 2011/12
- Roles, responsibilities, and funding of public entities after the Canterbury earthquakes
- Effectiveness of arrangements to check the standard of services provided by rest homes: Follow-up audit
- Inquiry into aspects of ACC's Board-level governance

Website

All these reports, and many of our earlier reports, are available in HTML and PDF format on our website – www.oag.govt.nz. Most of them can also be obtained in hard copy on request – reports@oag.govt.nz.

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