Controller and Auditor-General
Tumuaki o te Mana Arotake

B.29[15d]

Local government: Results of the 2013/14 audits

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Local government: Results of the 2013/14 audits

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Auditor-General's overview

Challenging times continued for local authorities in 2013/14. Elected members, many in office for the first time, are being asked to respond to matters of growing complexity, urgency, and consequence. Decisions about significant infrastructure investments are mounting for many local authorities, as are pressures to "manage-down" increasing operational costs and rates demands.

Good governance and effective management are imperative.

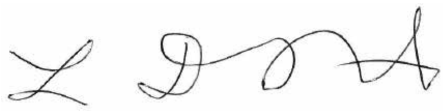
Last year, I emphasised the need for local authorities to correct deficiencies in their rating practices, as many rating practices did not meet minimum statutory requirements. Local authorities had already set rates for 2013/14 when deficiencies in the 2012/13 rates were identified, so many deficiencies continued. However, I expect that local authorities will have made necessary improvements to next year's rating practices.

I also commented last year on the value of audit and risk committees. Elected members are responsible for overseeing significant decisions. Such decisions often involve risk. Some local authorities have improved their audit and risk management practices in 2013/14. A review we carried out recently suggests that this is a needed area of focus.

Trends in the 2013/14 annual reports highlight many of the challenges facing local authorities. The results indicate that local authorities are attempting to smooth out rate increases over time and keep spending and debt under control. I recently published a report entitled *Water and roads: Funding and management challenges*. The report noted that many local authorities did a reasonable job managing short-term and medium-term infrastructure delivery, but struggled to strategically plan for and fund their long-term needs. Local authorities will need to protect and enhance their capability to obtain good data and make long-term decisions about their networks as renewal needs increase. There is a significant renewal challenge ahead for many local authorities.

We noted that more local authorities left finalising their financial statements until the last two weeks of October 2014, nearly four months after their balance date. Communities and businesses have a right to expect accurate and timely information to help hold their local authority to account. Communities expect those they entrust with governance responsibilities to be accountable. Adopting and publishing financial statements is a key measure of accountability. In 2014, three local authorities failed to meet the statutory deadline for adopting their annual reports.

Local authorities are presently consulting on their long-term directions for 2015-25. Addressing the issues noted above will be important for communities to have confidence that affordable services can be maintained.



Lyn Provost
Controller and Auditor-General

20 February 2015

Our recent work on governance in local authorities

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1.1 In last year's report, *Local government: Results of the 2012/13 audits*, we considered the challenges of the governance role, particularly for elected members. We discussed the various sources of support available, and highlighted some lessons for elected members.

1.2 Because the theme for our 2014/15 work programme is *Governance and accountability*, we have continued our focus on governance matters arising from our recent reports.

1.3 In this Part, we discuss the main issues arising from those reports. We cover:

- decision-making matters for elected members;
- managing risk; and
- governance of council-controlled organisations.

Making good decisions

1.4 Elected members have an obligation to ensure that the decisions they make on behalf of their communities are made in a robust and transparent way. Good decisions create community confidence and trust, and should be informed by reliable and effective supporting information and advice. Our comments below reflect the importance of elected members engaging in ongoing reflection about how best to understand and improve their decision-making responsibilities while appropriately managing risks.

1.5 We comment on two important decision-making areas here – rating practices and asset management.

Rating practices

1.6 In our report last year, we highlighted some rating practices that did not comply with statutory requirements. Some local authorities justified these practices as being pragmatic. We stated our view that a pragmatic approach was an unacceptable risk, particularly given that the power to set rates is a power to tax people for services provided. Rating practices needed to improve.

1.7 Because the annual audit is conducted at the end of the financial year in review, when rates have already been set for the following financial year, we were conscious that there would be instances where deficient rating practices would still be evident for rates set for 2013/14. Local authorities would not yet have had the chance to take corrective action from our previous year's audit work.

1.8 We have observed that some local authorities did indeed experience similar problems with rating compliance in 2013/14. We have again seen inconsistencies between information contained in the rates resolution and the funding impact statement. The inconsistencies seem to be largely a result of poor internal practices, internal quality control deficiencies, and a lack of attention to the detail of legal requirements.

1.9 The wording for every rate contained in the rates resolution must mirror the wording contained in the funding impact statement. There must also be enough information in the funding impact statement for ratepayers to determine their individual rates charges.

1.10 We expect to see a marked improvement in rates set by local authorities for 2014/15. After our work in 2012/13, many local authorities sought legal advice on problems drawn to their attention by our auditors, and will have improved their processes. We expect to see improved and effective rating practices, aligned with statutory obligations, in the future.

1.11 Elected members need to be satisfied that, when they resolve to adopt rates, their rates resolutions are legally effective. This is a critical governance role for elected members. Ratepayers will hold local authorities to account for failing in this responsibility.

Asset management

1.12 Local authorities are responsible for more than $100 billion of assets that provide essential services to communities. Our recently published report, *Water and roads: Funding and management challenges*, assessed the approach that local authorities are taking to managing their infrastructure assets.

1.13 The report highlighted that, while most local authorities' planning and decision-making about infrastructure is adequate for short-term to medium-term planning, more work is needed to ensure that long-term planning decisions are sound. This is largely because local authorities do not make the best use of data to support their decisions and need to give greater consideration to potential changes in the local economy over time.

1.14 Decisions made about assets have a long-term effect on communities. Ongoing maintenance, renewal, and, ultimately, replacement costs represent the actual cost of the asset borne by ratepayers. Also, decisions invariably create an expectation in the community about the level and quality of service they will receive from the asset, which they expect to be consistently delivered during the life of the asset. It means that the decisions that elected members make about assets are critical. In our experience, this is something that local authorities have not always done well.

1.15 Our water and roads report highlights that, between 2007 and 2013, local authorities consistently spent less than they had forecast to spend on capital works, including asset renewals. Further, we estimate that the gap between asset renewal expenditure and depreciation could be between $6 billion and $7 billion by 2022.

1.16 Without good information, elected members and their communities will struggle to understand, and make effective choices about, their future needs. Local authorities need to build their capability to more effectively use asset condition and network performance information so that robust decisions can be made about managing infrastructure needs into the future.

1.17 Recent amendments to the Local Government Act 2002 now require local authorities to prepare a 30-year infrastructure strategy in their long-term plans. This strategy will identify significant infrastructure issues, options, and implications for the local authority and its community over 30 years.

1.18 The strategy will be a useful planning tool for local authorities, provided the supporting information about asset condition and performance is robust.

1.19 We will be reviewing infrastructure strategies as part of our audits of local authorities' 2015-25 long-term plans, and we plan to report on this in future.

Managing risks

1.20 Good governance requires elected members to manage uncertainties and gain assurance that organisational risks are being identified and appropriately managed. There are a number of tools available to elected members to support them in this function, and some of these were discussed in our previous report, *Local government: Results of the 2012/13 audits*.

Audit committees

1.21 Audit committees can make a valuable contribution to effective governance arrangements and are a key mechanism for supporting elected members to develop an assurance picture of the entity's overall risk.

1.22 Effective committees usually consist of 4-6 members, have an independent Chairperson, and have some independent members with a good balance of skills and expertise, and all members are willing to challenge and question.

1.23 We have observed an increasing number of audit committees being established in local authorities since the start of the 2013-16 triennium, with many undergoing a significant transformation in structure and purpose.

1.24 However, the results of a survey we recently conducted of audit committees in the local government sector show that, while almost 80% of local authorities have audit committees, only 64% are considered effective. Less than a third of audit committees have an internal audit review function, and two-thirds do not have independent members.

1.25 Retaining ineffective audit committees provides limited value. We encourage local authorities to consider whether the current structure and purpose of their audit committees could be improved.

1.26 We recently published a discussion document, *Making the most of audit committees in the public sector*. We hope that this will contribute to a wider conversation about the effectiveness of audit committees, focusing on things that do work and things that do not work. We will be publishing the feedback we receive on our website (www.oag.govt.nz).

Health and safety reform

1.27 Health and Safety is a current topic of conversation in discussions with local authority chief executives and Mayors. This is due to changes proposed to the Health and Safety in Employment Act 1992 by the Health and Safety Reform Bill, which is currently before Parliament and is intended to come into effect in late 2015.

1.28 As currently drafted, the Bill would require those in governance roles to proactively manage workplace health and safety by exercising due diligence to ensure that their organisation complies with its duties. This positive due diligence duty also applies to elected members, although the Bill would exempt elected members from prosecution for a breach of that duty.[1]

1.29 Managing health and safety risk is an important governance function, which is often overseen by the Audit Committee. The external auditor does not have a specific role to play in ensuring legal compliance in health and safety matters, and so will be concerned with legal issues only where a failure could have a material effect on the financial statements; for example, if the organisation has to cease operations for a period due to a health and safety failure.

1.30 Ensuring legal compliance with health and safety law is the responsibility of the local authority, and elected members as governors should ensure that they understand their obligations.

1 Ministry of Business, Innovation and Employment, Questions and Answers – Health and Safety Reform Bill.

Conflicts of interest

1.31 We are regularly asked to consider conflict of interest matters. It is an area that causes a great deal of confusion because the issues are often not clear cut.

1.32 This was the cause of our recent report, *Ashburton District Council: Allegations of conflicts of interest affecting decisions on a second bridge*, which considered how three elected members of Ashburton District Council managed conflict of interest questions in relation to decisions being made about a project to build a second bridge across the Ashburton River.

1.33 Our report concluded that the choice each councillor made in relation to managing their individual non-financial conflict of interest risk was reasonable.

1.34 There was a separate matter in relation to whether one councillor should have withdrawn due to a perception of bias or predetermination. The councillor in question was provided with legal advice obtained by the Council, which concluded that he would probably be perceived as biased and so his participation could create a legal risk to the decision being made. The councillor obtained his own legal advice, which provided a different view. The councillor considered all the advice, and ultimately decided that his responsibility to his community outweighed the risks and he did in fact take part in the vote. We found that, although it was a reasonably significant decision to not follow Council advice, it was a decision he was entitled to make.

1.35 Determining matters of conflict is rarely clear or straightforward. Elected members have to weigh up a number of competing considerations and, in the end, must make their own decision unless it is a clear financial conflict. In the interests of openness and fairness, we encourage elected members to exercise their decision-making responsibilities with due care and, if in doubt, to err on the side of caution.

Governance of council-controlled organisations

1.36 Effective local authority governance often involves elected members achieving their desired outcomes through subsidiaries and council-controlled organisations (CCOs). We are interested in the governance and accountability of CCOs and note that the number of such entities has increased steadily since enactment of the Local Government Act 2002.

1.37 A number of structural reviews of subsidiaries have been undertaken by local authorities recently, indicating that local authorities are turning their minds to the question of whether current governance structures are effective and best meet their needs.

1.38 We are currently reviewing the governance and accountability arrangements between local authorities and CCOs, with a specific focus on the various accountability mechanisms in place, strategic alignment between the CCO and its parent local authority, and effectiveness of the monitoring arrangements in place.

1.39 In a 2001 report, we proposed five principles for good governance of CCOs:[2]

- the subsidiary entity should have a clearly defined purpose;
- the subsidiary entity's governing body should be effective;
- the parties involved should be assigned clear roles and responsibilities;
- the local authority should be able to hold the subsidiary entity to account; and
- mechanisms for accountability to the community must be in place.

1.40 Our subsequent work suggests that those principles remain relevant.

1.41 We have observed that good relationships are as important as having the right structures and processes in place. The relationship between a parent local authority and its CCO is more effective when the local authority is clear about its purpose for establishing and maintaining the CCO, and when that purpose is equally clear to the CCO. A local authority should be able to clearly express the rationale for the CCO to its community and should be confident that a CCO structure is the best one for achieving its objectives.

1.42 The governance function of elected members in monitoring the performance of their CCOs is critical to ensuring accountability to the community. This function works best when everyone is clear about their respective roles and responsibilities. In addition, the use of informal mechanisms to supplement the formal monitoring framework is important in promoting positive and constructive engagement between local authorities and their CCOs.

1.43 We expect to publish our report on CCOs later in 2015.

2 *Local Authority Governance of Subsidiary Entities*, March 2001, pages 10-11.

Financial results and trends

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2.1 In this Part, we summarise the financial results from the 2013/14 annual reports of local authorities, focusing on the audited information about operating revenue, rates revenue, operating expenditure, capital expenditure and debt.

2.2 The information excludes the results of Ruapehu District Council and Westland District Council. The annual reports of these two local authorities were not publicly available when we prepared this Part.

2.3 The financial results reflect the continuing trend of incremental increases in expenditure and revenue by local authorities. The results also show that local authorities are still spending less than they intended on capital works, including on asset renewals. We continue to emphasise the need for local authorities to review their asset management planning, depreciation practices, and capital expenditure management. Debt was also less than anticipated, due to the under-delivery on capital expenditure intentions.

What do the 2013/14 annual reports show?

Revenue and rates revenue

2.4 In 2013/14, local authorities recorded more revenue ($9.05 billion) than in 2012/13 ($8.29 billion). The main factor for the 9% increase in revenue was a large asset revaluation movement recognised by Auckland Council.

2.5 Auckland Council recognised net gains of $412 million on the revaluation of its property, plant, and equipment in 2013/14. This followed the recognition of a net loss of $401 million on the revaluation of property, plant, and equipment in 2012/13. These revaluations are in accordance with accounting standards. They are non-cash movements and show the increase or decrease in the value of the Council's assets, as opposed to the collection of more revenue from the Auckland community.

2.6 Due to the size and scale of Auckland Council, its financial results can dominate financial trends for the local government sector as a whole. When Auckland Council was excluded from our analysis, we found that local authorities received total revenue of $6.4 billion in 2013/14, 2% more than the $6.3 billion in 2012/13.

2.7 We estimate that local authorities (including Auckland Council) collected rates of about $4.9 billion in 2013/14, which was $204 million or 4% more than in the previous year. Because local authorities disclose their rates revenue in different ways, particularly targeted water rates, the total rates figure is more difficult to calculate than the total of all revenue. However, we believe that this is a reasonable estimate.

2.8 Rates revenue comprised 54% of local authorities' total revenue in 2013/14. Local authorities have limited alternative revenue sources. Other sources of funds include subsidies paid by New Zealand Transport Agency, development contributions, and vested assets. Rates are the main funding source for operational expenditure.

Expenditure

2.9 Total expenditure by local authorities in 2013/14 was $7.8 billion. This was slightly less than in 2012/13 ($7.9 billion).

2.10 Again, the reason for the decrease can largely be explained by Auckland Council's financial results. When Auckland Council was excluded from our analysis, we found that local authorities had expenditure of $5.8 billion, 3% more than in 2012/13. As noted in paragraph 2.7, we observed a similar increase between years in rates revenue.

2.11 Collectively, local authorities had planned an average year-on-year increase of 4% in expenditure during the period of their long-term plans.[3] An increase of 3% in 2013/14 is therefore in line with that forecast.

Capital expenditure

2.12 Local authorities' capital expenditure in 2013/14 was $2.3 billion.[4] This compares with $2.4 billion in 2012/13.

2.13 Local authorities budgeted to spend $3.2 billion on capital expenditure in 2013/14. Only 74% of budgeted capital expenditure was incurred.

2.14 We have previously expressed concern that local authorities have a trend of incurring substantially less capital work than budgeted. Most recently, we outlined our observations in our report, *Water and roads: Funding and management challenges*. We found that spending trends raised questions about local government asset planning, depreciation practices, and capital expenditure management.

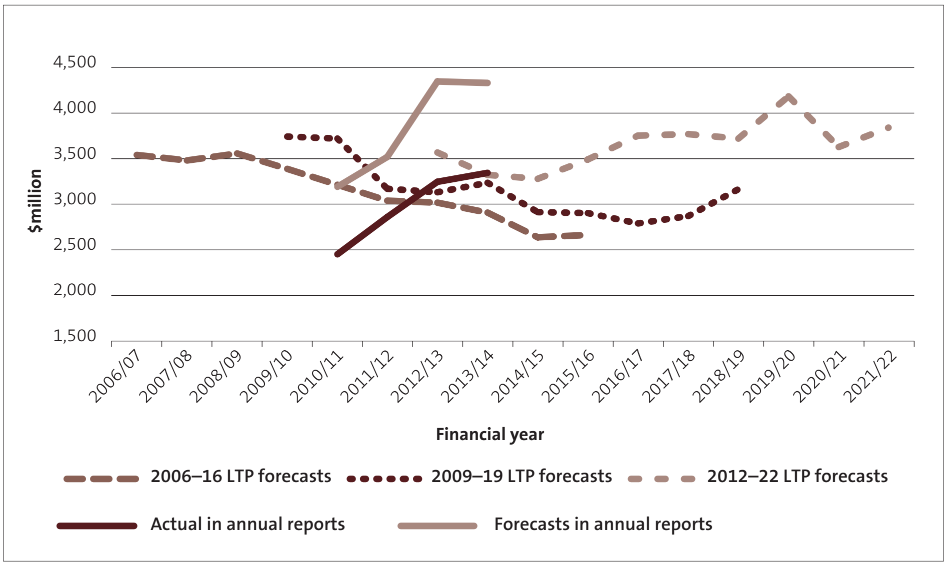
2.15 Thirty local authorities performed better against their capital expenditure budgets in 2013/14 than in the previous year, but 12 were 20% lower than the previous year. Six local authorities achieved less than 50% of the capital expenditure that they had budgeted. Auckland Council spent only 45% of its capital expenditure budget in 2012/13, but spent 120% of the budget in 2013/14, confirming its position that some projects had been delayed due to planning refinements to the projects in relation to both timing and cost.

3 *Matters arising from the 2012-22 local authority long-term plans*, page 43.

4 This information has been extracted from the statement of cash flows of local authorities. It includes the cash spent on capital expenditure in the financial year of the parent local authority only.

2.16 Figure 1 shows the forecasts of capital expenditure from all local authorities' 2006, 2009, and 2012 long-term plans, and budgeted and actual capital expenditure from the 2011 to 2014 annual reports.

Figure 1
Comparisons of forecast and actual capital expenditure for all local authorities



2.17 After the eight Auckland local authorities amalgamated in 2010, Auckland Council prepared its first long-term plan in 2012. This was a group long-term plan. As a result, the 2012 long-term plan forecasts in Figure 1 include the forecast capital expenditure for the Auckland Council group.

2.18 The information extracted from the annual reports (actual and forecast) includes both parent local authority capital expenditure and the capital expenditure of Auckland Transport and Watercare Services Limited, as Auckland Council's two largest subsidiaries.[5]

2.19 Figure 1 shows that the actual capital expenditure for 2010/11 to 2013/14 recorded in annual reports is quite different from that forecast in the corresponding annual plans. Collectively, local authorities have spent less on capital expenditure than forecast from 2010/11 to 2013/14.

5 Because Watercare Services Limited does not disclose forecast capital expenditure in its annual report, we have used its actual expenditure as a proxy for forecast capital expenditure for the purpose of the graph in Figure 1.

2.20 We also collected and analysed the capital expenditure indicated in the funding impact statements for 2013/14. Capital expenditure is disclosed in three categories:

- expenditure for new assets to meet additional demand;
- expenditure to improve service levels; and
- expenditure to replace or renew assets.

2.21 Local authorities were more likely to meet capital expenditure plans to improve levels of service of assets (spending at a rate of 91% of that budgeted), in contrast to 75% of budget on replacement assets and 79% of budget on renewing the existing asset base. This indicates spending on new assets to improve service levels while not maintaining the existing asset base.

2.22 For 21 local authorities, capital expenditure was less than 100% of depreciation. Comparing the level of capital expenditure to the depreciation charge is an indication of the adequacy of upkeep of the existing infrastructure investment. The capital expenditure of those local authorities that had spent less than 100% ranged from 43% to 99% of depreciation.

2.23 In contrast, Christchurch City Council and Environment Canterbury had capital expenditure of 471% and 469% respectively of depreciation. For Christchurch City Council, this was due to ongoing, substantial, earthquake-recovery work. Otago Regional Council had 469% expenditure to depreciation because of ongoing, significant, flood-protection work on the Leith River. West Coast Regional Council's 741% capital expenditure compared to depreciation related to expenditure on the Hokitika sea wall. Such high percentages are not uncommon for regional councils when they are completing capital expenditure that is significant for their region, because much of a regional council's assets are not depreciated.

2.24 It is arguable that capital expenditure on renewals is a better basis of comparison with depreciation expense. When we compare renewals expenditure to depreciation, we assume that depreciation is a reasonable estimate of the consumption of service potential within the asset and therefore the capital expenditure needed to reinstate the existing asset base. A result where renewals expenditure is equal to depreciation (100%) over time usually indicates that an asset (and therefore service) is sustainable.

2.25 In 2013/14, six local authorities had renewals that were 40% or less as a proportion of depreciation. The circumstances of each local authority need to be considered individually. However, it is likely that ongoing renewal of existing asset systems at such a low level will result in costs falling on future generations.

2.26 In our report, *Water and roads: Funding and management challenges*, we highlighted that 2012-22 long-term plans indicated a "renewals/depreciation gap" – the difference between renewals expenditure and depreciation – of between $6 billion and $7 billion by 2022.

2.27 Several factors could contribute to the gap between renewals and depreciation. Depreciation could be overestimated (for example, if local authorities do not review and adjust the useful lives of assets) or there could be changes in prices associated with asset renewal work over time.

2.28 However, local authorities need to turn their minds to the "gap" and the implications that it has to ensure that there is adequate financial provision for renewing assets in the future. This will require integration of governance with management and, in particular, asset planners, engineers, and accountants.

Debt

2.29 Debt and capital expenditure variances are generally closely aligned because local authorities typically use debt to fund the construction of long-life assets (at least in part).

2.30 Local authorities had debt of $10.8 billion at 30 June 2014. This was $1 billion less than budgeted, but $650 million more than at 30 June 2013.

2.31 The amount of debt at 30 June 2014 was 83% of that budgeted, which is 5% lower than the same comparison at 30 June 2013. This is also reflected in the proportion of rates revenue that is used to cover interest expenses, which dropped by 1% compared to 2012/13. Thirteen local authorities spent more of their rates revenue on interest expenses in 2013/14, but 30 spent less.

2.32 Of the eight local authorities with interest expenses as a proportion of rates revenue above 15%, half have either maintained the proportion spent on interest expenses or reduced the proportion by up to 5%. This indicates the focus that local authorities are placing on managing debt. We expect this to be a focus of the 2015-25 long-term plans, particularly given the requirement of local authorities to report on the financial benchmarks under the Local Government (Financial Reporting and Prudence) Regulations 2014.

2.33 The level of debt as a proportion of total assets – 5% – remains low.

3 Timeliness in annual reporting

3.1 In this Part, we describe when local authorities adopted their annual reports and publicly released their annual reports and summary annual reports. We also describe the importance of the statutory requirements for adopting annual reports and their public release.

3.2 The Local Government Act 2002 requires local authorities to:

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

3.3 The statistics we use were compiled on 5 December 2014. Appendix 1 sets out more detail on when local authorities adopted and released their annual reports and summary annual reports.

Adopting annual reports

3.4 For 2013/14, three authorities missed the deadline to complete and adopt their audited annual report within four months after the end of the financial year. We are disappointed that three local authorities missed the deadline. Local authorities need to know their statutory obligations and have appropriate procedures to meet them.

Figure 2
Performance in meeting the statutory deadline for adopting annual reports, 2009/10 to 2013/14

Statutory deadline for	Number of local authorities that did not meet the statutory deadline				
	2009/10	2010/11	2011/12	2012/13	2013/14
Adopting the annual report	7	8	1	6	3

3.5 Further, we note that, of the 78 local authorities that adopted their annual reports before the statutory deadline, 34 did so in the last week of October. In comparison, 22 local authorities had adopted in the last week of October for 2012/13. We were surprised and concerned that an increasing number of local authorities completed their initial accountability responsibilities so late into the four-month reporting period. This situation created extra pressures on those involved in the preparation and review of annual reports, and we are also observing flow-on effects on local authorities' work to progress their 2015-25 long-term plans.

Public release of annual reports and summary annual reports

3.6 In addition to our concerns about delayed adoption of audited annual reports, we are concerned that the release of this information to the public has not improved. We consider this unacceptable.

3.7 Four local authorities missed the one-month deadline for releasing their annual reports to the community, and five local authorities missed the one-month deadline for releasing their summary annual reports. Two of these local authorities adopted their annual reports in September. The 2013/14 results are not as good as in the previous two years.[6]

Figure 3
Performance in meeting the statutory deadline for release of annual reports and summary annual reports, 2009/10 to 2013/14

Statutory deadline for	Number of local authorities meeting the statutory deadlines				
	2009/10	2010/11	2011/12	2012/13	2013/14
Releasing the annual report	72	73	77	75	72
Releasing the summary annual report	71	72	75	74	71

The importance of timely reporting

3.8 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.

3.9 Releasing annual reports and summaries are 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.

3.10 We consider that many local authorities need to better project-manage how they produce and publish their annual and summary annual reports.

3.11 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 annual reports. We expect all local authorities to be able to achieve this.

6 The 2013/14 statistics for public release dates do not include the local authorities that adopted their annual reports after 5 December 2014.

4 The audit reports we issued in 2014

4.1 In this Part, we provide an overview of the audit results for local authorities, other local government entities, and licensing trusts.[7]

4.2 Figure 4 shows that we issued 567 audit reports on local government entities and licensing trusts.[8] Of the 567 reports, 505 were standard audit reports and 62 were non-standard audit reports. Appendix 2 contains summaries of non-standard modified audit opinions and unmodified audit opinions with "emphasis of matter" paragraphs. We set out the key concepts and frameworks applied in determining audit opinions in Appendix 3.

4.3 We compared the results of our audit reports issued in 2014 with our audit reports issued in 2013 for any emerging trends or patterns. There was no significant difference in the number of standard and non-standard audit reports issued during 2013 and 2014 for the local government sector as a whole. Nor did we observe any trends or significant changes between years.

Modified audit opinions

Disclaimers of opinion

4.4 During 2014, we expressed disclaimers of opinion on the financial or service performance information of four public entities.

4.5 We expressed a disclaimer of opinion for Vbase Limited, a subsidiary of Christchurch City Council (for 2013/14). We could not get enough assurance because of damage caused by earthquakes that affected:

- the carrying value of insurance receivables, as it was unclear how much of the insurance receivables will be recovered and when that recovery will occur;
- how much of the carrying value of the CBS Arena, which was revalued in 2013/14, should have been recognised in previous years; and
- the carrying value of the current and deferred tax balances that should be recognised in the financial statements and would be affected by the outcome of the matters identified above.

4.6 We were also unable to get enough appropriate audit evidence to support the "financial performance targets" section of Vbase Limited's statement of service performance, but we did issue an unmodified opinion on its statement of cash flows.

7 We issued a separate report in October 2014 on licensing trusts – *Challenges facing licensing trusts*.

8 Local authorities, most council-controlled organisations, 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 and cemetery boards have a 31 March balance date. Fish and game councils have a 31 August balance date, and other entities, including some council-controlled organisations and other local government miscellaneous entities, have a balance date in March, August, October, or December.

Figure 4
Audit reports issued on local government entities and licensing trusts

	Total number of audit reports issued	Standard audit reports	Non-standard audit reports issued			
			Modified opinion (Disclaimer)	Modified opinion (Adverse)	Modified opinion (Qualified)	Unmodified opinion but including an "emphasis of matter" paragraph/s
Local authorities	75§	68	-	1	1	5
Council-controlled organisations	141§§	122	1	4	5	9
Energy companies and subsidiaries	75∞	69	4	-	-	2
Airports and subsidiaries	20	20	-	-	-	-
Port companies and subsidiaries	34	34	-	-	-	-
Licensing trusts	34∞	30	-	-	2	2
Miscellaneous other local government entities	70*	61	-	3	-	6
Small entities**	118***	101	-	-	13	4
Total	**567**	**505**	**5**	**8**	**21**	**28**

§ This number includes one audit report for the previous financial period.
§§ This number includes nine audit reports for previous financial periods.
∞ This number includes two audit reports for previous financial periods.
∂ This number includes two audit reports for previous financial periods.
* This number includes four audit reports for previous financial periods.
** This category is made up of Administering Bodies and Boards, cemetery boards, fish and game councils, and Local Authority Sinking Fund Commissioners.
*** This number includes 17 audit reports for previous financial periods.

4.7 We expressed disclaimers of opinion for three power companies on the completeness and accuracy of network reliability performance reporting. There was no independent evidence available to support the completeness and accuracy of fault information, and there were limited controls over the completeness and accuracy of data about the customer connections:

- Counties Power Limited and Group (for 2012/13 and 2013/14);
- Electricity Invercargill Limited and Group (for 2013/14); and
- Network Waitaki Limited and Group (for 2013/14).

4.8 We issued unmodified opinions for those three entities on their financial statements and other performance measures that were not affected by the limitations affecting the completeness and accuracy of network reliability performance reporting.

Adverse audit opinions

4.9 In 2014, we expressed adverse opinions on the financial or performance information of seven public entities.

4.10 We expressed an adverse opinion on Tararua District Council (for 2013/14) because it did not prepare consolidated financial statements that included its subsidiary, Infracon Limited. Infracon Limited was placed in liquidation on 25 August 2014. We also drew attention to disclosures in the financial statements about the Council's decision to write-down the value of its investment in Infracon Limited to nil, and the uncertainty about the valuation of that investment because the residual value of Infracon Limited is unknown.[9]

4.11 Because they did not recognise their museum collection assets or the associated depreciation expense in their financial statements, as required by generally accepted accounting practice, we expressed adverse opinions for:

- Southland Museum and Art Gallery Trust Board Incorporated (for 2013/14); and
- Canterbury Museum Trust Board (for 2013/14).

4.12 We expressed an adverse opinion for Safer Papakura Trust (for 2012/13) because the Trust had incorrectly prepared its financial statements on a going-concern basis when a decision has been made by the Trustees to disestablish the Trust.

4.13 We expressed adverse opinions for three public entities that had not reported against performance measures and targets in their statements of service performance because they did not prepare a statement of intent for the reporting year and failed to comply with the law by not preparing a statement of intent for the next reporting period. The adverse opinions were for:

- Hauraki Rail Trail Charitable Trust (for 2012/13), whose audit was also limited because we could not obtain assurance about commission revenue due to

9 We also drew attention to disclosures in Central Hawke's Bay District Council's financial statements for 2013/14 relating to Infracon Limited. See paragraph 4.22 for details.

limited controls over that revenue;

- West Coast Rural Fire Authority (for 2006/07 and 2007/08); and
- Southland Regional Heritage Committee, which is a trust associated with Gore District Council, Southland District Council, and Invercargill City Council (for 2013/14).

Qualified audit opinions

4.14 During 2014, we expressed qualified opinions on the financial or service performance information of 17 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.

4.15 We expressed a qualified opinion on the financial statements of Christchurch City Council for 2013/14. We could not obtain enough audit evidence about:

- the carrying value of land, the Council's buildings, roading network, sewerage system, and stormwater system because there was not enough information to quantify the financial effects of the damage caused by the earthquakes on these assets;
- how much of the carrying value of the Council's water supply assets, which were revalued in the current reporting period, should have been recognised in previous years;
- the carrying value of insurance receivables recognised in the Council's financial statements because it is unclear how much of the insurance receivables will be recovered and when that recovery will occur; and
- the Council's capital work in progress balance because of the rebuild activities that are under way. The Council was unable to accurately classify this balance into completed assets, assets still under construction, and operating expenditure.

4.16 Also, we were unable to get audit evidence for the "what did it cost" sections and the associated variance explanations, including the reported comparative information, in the Council's statement of service provision.

4.17 We drew attention to disclosures that outlined the deficiencies in rates-setting resolutions made between 2004/05 and 2012/13, and noted that a Bill to correct the deficiencies is currently before Parliament.

4.18 We expressed a qualified opinion on the financial statements of Vbase Limited, a subsidiary of Christchurch City, because our audit was limited (for 2013/14). We could not get enough assurance about the valuation of buildings because the earthquakes have created a situation where there is insufficient market evidence to provide reliable fair values for buildings.

4.19 We expressed a qualified opinion on the financial statements of Tauranga City Investments Limited, a subsidiary of Tauranga City Council, in relation to comparative information (for 2013/14). We were unable to get assurance about the completeness of cash receipts revenue.

4.20 Also, we drew attention to disclosures in the financial statements of Tauranga City Investments Limited about the disestablishment basis of accounting being used appropriately in preparing the financial statements because the company was disestablished on 1 July 2014 and its assets and liabilities were transferred to Bay Venues Limited.

4.21 Because we could not get enough assurance about the completeness of revenue and/or expenditure and/or other items (such as inventory, livestock, or annual leave balances), we expressed qualified opinions for the following public entities:

- World Buskers Festival Trust, which is a trust controlled by Christchurch City Council (for 2013/14);
- Parakai Licensing Trust, whose financial statements were appropriately prepared on a disestablishment basis (for 2009/10);
- Ongarue Hall Society Incorporated, whose financial statements were appropriately prepared on a disestablishment basis (for 2010/11, 2011/12, and 2012/13);
- Nelson Creek Recreation Reserve Board, whose financial statements were appropriately prepared on a disestablishment basis (for 2010/11);
- Te Kauwhata Licensing Trust (for 2013/14);
- Mapiu Sport and Recreation Committee (for 2010/11);
- Waikiekie Domain Board (for 2011/12);
- Whatitiri Domain Board (for 2011/12);
- Taurikura Hall Board (for 2012/13);
- Kaikoura Enhancement Trust and Group, which is a trust controlled by Kaikoura District Council) (for 2008/09 and 2009/10);
- Poukiore Domain Board (for 2012/13);
- Waipu Cove Reserve Board (for 2008/09 and 2009/10);
- Ohau Hall Board (for 2012/13); and
- Ruapuke Cemetery (for 2012/13).

Unmodified audit opinions with "emphasis of matter" paragraphs

Local authorities

4.22 We drew attention to disclosures in Central Hawke's Bay District Council's financial statements for 2013/14 about:

- the Council's investment in Infracon Limited, which had been written down to nil value; and
- uncertainties with the valuation of that investment because the outcome of the liquidation process is unknown.

4.23 We drew attention to disclosures in Chatham Islands Council's financial statements for 2013/14 about how the Council, in setting its 2013/14 rates, failed to adopt a rates resolution as required by the Local Government (Rating) Act 2002. The Council was investigating options to address this situation.

4.24 We drew attention to a number of disclosures in Far North District Council and Group's financial statements for 2012/13:

- The Council spent $2,258,000 to date on the Sweetwater Aquifer Scheme (the Scheme). As a result, the assets were reported with a carrying value of $747,000 and operating expenditure of $1,511,000.
- The Council carried out an investigation into all aspects of the Scheme, including a review of the Council's decision-making and project management process relating to the Scheme, and its financial management of the Scheme.
- The Council failed to adopt its annual report within the statutory reporting deadline.

4.25 We drew attention to disclosures in Kaipara District Council's financial statements for 2013/14 about the possible significant financial effect if the ruling on the Mangawhai Ratepayers and Residents Association's appeal to the Court of Appeal was not in favour of the Council. This would overturn the High Court's judgment about the Council's ability to use rates revenue, both past and future, to service the debt raised to fund the Mangawhai Community Wastewater Scheme.

4.26 We drew attention to disclosures in Taupō District Council and Group's financial statements for 2013/14 about the breach of the Local Government Act 2002 because the Council failed to adopt its 2012-22 long-term plan by 1 July 2012.

4.27 A long-term plan is needed to provide for integrated decision-making, as a basis of accountability to the community, and setting valid rates under the Local Government (Rating) Act 2002. Because the Council did not adopt its long-term plan until 24 September 2013, it has applied to the Department of Internal Affairs for an Order in Council to validate the late adoption of the long-term plan as if it had been adopted before 1 July 2012.

Council-controlled organisations

4.28 We drew attention to the uncertainties in measuring the carrying value of an insurance settlement receivable because of inherent uncertainties in the information on which the carrying value of the asset was based for Tuam Limited, a subsidiary of Christchurch City Council (for 2013/14).

4.29 We drew attention to the uncertainties in measuring the fair value of shares in incubator and accelerator companies for Creative HQ Limited, a subsidiary of Wellington City Council (for 2013/14) because of the "early stage" nature of the investments and the absence of quoted market prices.

Audit opinions on going concern

4.30 We drew attention to uncertainties about the use of the going-concern assumption for two entities:

- Inframax Construction Limited, which is a subsidiary of Waitomo District Council (for 2013/14); and
- Pulse Energy Limited, which is a subsidiary of Buller Electricity Limited (for 2012/13). The uncertainty relating to Pulse Energy Limited had been eliminated for the 2013/14 financial statements, and we were able to issue a standard audit report for that year.

4.31 We drew attention to disclosures about New Zealand Local Government Insurance Corporation Limited and Group (trading as Civic Assurance) (for 2012/13) preparing its financial statements using the going-concern assumption, despite the company being in arbitration with its reinsurers about the limits of cover under the reinsurance programme.

4.32 We also drew attention to the uncertainty as to when Civic Assurance will be able to resume its normal business activities and whether it will make sufficient profits to allow all of its deferred tax assets to be recovered.

4.33 We drew attention to disclosures in the financial statements for four entities about uncertainties relating to their use of the going-concern assumption:

- Village Pool Charitable Trust, which is a trust controlled by Hastings District Council (for 2012/13);
- Oamaru Licensing Trust (for 2013/14);

- Rimutaka Licensing Trust and Group (for 2012/13); and
- Ruawhata Public Hall Board (for 2012/13).

4.34 We drew attention to disclosures in a number of other financial statements where the entity was no longer a going concern, and where the financial statements had been correctly prepared using an alternative basis of accounting. The relevant public entities were:

- Christchurch Stadium Trust, a trust that had forecast financial difficulties and required additional support from external parties (for 2013);
- Delta Investments Limited, which is a subsidiary of Dunedin City Council (for 2013/14);
- Scope Infrastructure Limited (for 2013/14);
- Cranberries New Zealand Limited (for 2013/14);
- Taranaki Provincial Patriotic Council (for 2011/12);
- Cooks Gardens Trust Board (for 2012/13); and
- Puhoi Cemetery, which was to be vested in Auckland Council on 20 February 2014 (for 2010/11, 2011/12, and 2012/13).

4.35 For three public entities, we drew attention to disclosures in the financial statements indicating that the entity was no longer a going concern, and where the financial statements had been correctly prepared using an alternative basis of accounting. These entities also did not have a statement of intent because they were inactive and did not have performance to report. They were:

- St James Theatre Limited, which is a subsidiary of Wellington City Council (for 2011/12);
- St James Charitable Trust, which is a trust controlled by the Wellington City Council (for 2011/12); and
- Luggate Nominee Limited, which is a subsidiary of Dunedin City Council (for 2013/14).

Other audit opinions

4.36 We drew attention to disclosures that Tauwhareparae Forests Limited, a subsidiary of Gisborne District Council (for 2013/14), did not have a statement of service performance because it is inactive and failed to comply with the law by not issuing a statement of intent for the next reporting year.

4.37 We drew attention to disclosures in Hauraki Rail Trail Charitable Trust's financial statements for 2011/12 about how the Trust failed to comply with the law by not issuing a statement of intent for the next reporting year.

Appendix 1
Adoption of annual reports, and release of annual reports and summary annual reports

The results shown in the tables below, for 2013/14 audits, are based on information available at 5 December 2014. We excluded the former Auckland local authorities from the 2009/10 figures, but included Auckland Council from 2010/11.

When local authorities adopted their annual reports

When the annual report was adopted	Number adopted for financial year				
	2009/10*	2010/11	2011/12	2012/13	2013/14
Within 2 months after the end of the financial year	2	2	1	2	1
Between 2 and 3 months after the end of the financial year	22	12	15	16	14
Between 3 and 4 months after the end of the financial year	46	56	61	54	60
Subtotal: Number meeting the statutory deadline	**70**	**70**	**77**	**72**	**75**
Percentage of local authorities meeting the statutory deadline	*91%*	*90%*	*99%*	*92%*	*96%*
Between 4 and 5 months after the end of the financial year	4	2	1	4	1
More than 5 months after the end of the financial year	3	6	0	2	0
Not issued as at 5 December 2014	0	0	0	0	2
Total	**77**	**78**	**78**	**78**	**78**

When local authorities released their annual reports

Time after adopting annual report	Number released for financial year				
	2009/10	2010/11	2011/12	2012/13	2013/14
0-5 days	23	35	36	29	16
6-10 days	6	8	9	9	8
11-20 days	21	10	13	16	18

21 days to one month	22	30	19	21	30
Subtotal: Number meeting the statutory deadline	**72**	**73**	**77**	**75**	**72**
Percentage of local authorities meeting the statutory deadline	*94%*	*94%*	*99%*	*96%*	*92%*
Number not meeting the deadline	5	5	1	3	4
Not issued as at 5 December 2014	0	0	0	0	2
Total	**77**	**78**	**78**	**78**	**78**

When local authorities released their summary annual reports

Time after adopting annual report	Number released for financial year				
	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**
0-5 days	6	38	21	15	5
6-10 days	5	12	7	4	5
11-20 days	22	15	12	21	14
21 days to one month	38	7	35	34	47
Subtotal: Number meeting the statutory deadline	**71**	**72**	**75**	**74**	**71**
Percentage of local authorities meeting the statutory deadline	*92%*	*92%*	*96%*	*95%*	*91%*
One month to 40 days	3	2	1	2	3
41-50 days	0	0	1	0	2
51-60 days	1	0	1	0	0
More than 60 days	2	4	0	2	0
Not issued as at 5 December 2014	0	0	0	0	2
Total	**77**	**78**	**78**	**78**	**78**

Appendix 2 Summaries of the non-standard audit reports issued in 2014[10]

Modified audit opinions – Disclaimers of opinion

Vbase Limited (Christchurch City Council)

Year ended 30 June 2014

We were unable to obtain sufficient appropriate audit evidence for:

- *Carrying value of insurance receivable of $147.9 million*

  The company has not made any allowance for any amount that may not be recoverable, which needs to be recognised as an expense if the full amount is not recovered in the future years. Further, the company has recognised an expense of $28.991 million for a reduction in the nominal value of the insurance receivable because it will be received in future years.

- *Revaluation of CBS Arena*

  Because we could not obtain sufficient appropriate audit evidence to support the carrying values of the CBS Arena, the audit reports for in the 30 June 2012 and 30 June 2013 financial statements were qualified. If there was any misstatement of the 2012 and 2013 carrying values of the CBS Arena, then a corresponding amount of the devaluation expenses in the statement of comprehensive income should have been recognised in those years, and the 2014 expense would have been overstated by that amount.

- *Current and deferred tax*

  Any misstatements in the company's financial statements arising from the above matters would have a consequential effect on the company's current and deferred tax asset and liability. Further, we are unable to determine whether the current and deferred tax balances are materially correct until such time as the company decided to change what the company has assumed, for tax purposes, that Lancaster Park stadium is irreparable and a replacement stadium will be built.

Our audit of the statement of service performance was also limited because we could not get sufficient appropriate audit evidence to support "financial performance targets" section of the statement of service performance.

Counties Power Limited and Group

Years ended 31 March 2013 and 31 March 2014

We were unable to form an opinion on two performance measures that are used to measure the network reliability performance – the System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) – in the statement of service performance because we could not confirm the completeness and accuracy of all the SAIDI and SAIFI outages due to:

- no independent evidence being available to support the completeness and accuracy of recorded faults used to measure the company and Group's achievement against the SAIDI and SAIFI performance targets adopted for the years ended 31 March 2014, 31 March 2013, and 31 March 2012; and

- limited control over the completeness and accuracy of interconnection point (ICP) data representing individual customer connections to the network included in the SAIDI and SAIFI calculations throughout the three years.

We could not provide assurance on the comparative information presented in the 31 March 2013 and 31 March 2014 statement of service performance because we issued a disclaimer of opinion on company and Group's previous year's statement of service performance due to the same limitations in independence evidence and controls over the outage and ICP data.

The company was issued an unmodified opinion on the financial statements and other performance measures in the statement of service performance for the years ended 31 March 2013 and 31 March 2014.

10 The information contained in this Appendix is extracted and summarised from the audit opinions issued.

Electricity Invercargill Limited and Group

Year ended 31 March 2014

We were unable to form an opinion on two performance measures that are used to measure the network reliability performance – SAIDI and SAIFI – in the statement of service performance because we could not confirm the completeness and accuracy of all the SAIDI and SAIFI outage due to:

- no independent evidence being available to support the completeness and accuracy of recorded faults used to measure the company and Group's achievement against the SAIDI and SAIFI performance targets adopted for the years ended 31 March 2014 and 31 March 2013; and
- limited control over the completeness and accuracy of interconnection point data representing individual customer connections to the network included in the SAIDI and SAIFI calculations throughout the period.

The company was issued an unmodified opinion on the financial statements and other performance measures in the statement of service performance for the year ended 31 March 2014.

Network Waitaki Limited and Group

Year ended 31 March 2014

We were unable to form an opinion on two performance measures that are used to measure the network reliability performance – SAIDI and SAIFI – in the statement of service performance because we could not confirm the completeness and accuracy of all the SAIDI and SAIFI outage due to:

- no independent evidence was available to support the completeness and accuracy of recorded faults used to measure the company and Group's achievement against the SAIDI and SAIFI performance targets adopted for the years ended 31 March 2014 and 31 March 2013; and
- limited control over the completeness and accuracy of interconnection point data representing individual customer connections to the network included in the SAIDI and SAIFI calculations throughout the period.

The company was issued an unmodified opinion on the financial statements and other performance measures in the statement of service performance for the year ended 31 March 2014.

Modified audit opinions – Adverse opinions

Tararua District Council and Group

Year ended 30 June 2014

We disagreed with the Council not preparing consolidated financial statements that incorporate the financial position of its subsidiary, Infracon Limited, and the results of its operations and cash flows. This is because the subsidiary has been placed into liquidation before issuing audited financial statements for the year ended 30 June 2014. These are departures from New Zealand International Accounting Standard 27 (PBE): *Consolidated and Separate Financial Statements*, which requires an entity to consolidate its investment in subsidiaries. The subsidiary had prepared draft financial statements but they do not reflect the liquidated value of the assets nor do they include all of the liabilities that may arise as a result of the liquidation.

We also drew attention to the disclosures in the financial statements about the Council's decision to write-down the value of its investment in the subsidiary to nil, and the uncertainty over the valuation of that investment because the outcome of the liquidation process is uncertain.

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

Year ended 30 June 2014

The Trustees did not recognise the Trust Board's museum collection assets or associated depreciation expense in the financial statements. This is not in keeping with New Zealand Equivalent to International Accounting Standard No.16: *Property, Plant and Equipment*, which requires the recognition of assets and depreciation in financial statements.

Canterbury Museum Trust Board

Year ended 30 June 2014

The Trustees did not recognise the Trust Board's museum collection assets or associated depreciation expense in the financial statements. This is not in keeping with New Zealand Equivalent to International Accounting Standard No.16: *Property, Plant and Equipment*, which requires the recognition of assets and depreciation in financial statements.

Safer Papakura Trust (Auckland Council)

Year ended 30 June 2013

We disagreed with the Trust preparing its financial statements on a going-concern basis when a decision had been made by the Trustees to disestablish the Trust.

The Hauraki Rail Trail Charitable Trust

Year ended 30 June 2013

The Board of Trustees did not report performance information that reflected the Trust's achievements, as measured against performance targets. This is because the Board of Trustees did not prepare a statement of intent that covered the reporting period. In addition, our audit was limited because we could not get enough assurance over commission revenue because of limited controls over that revenue. Finally, we drew attention to the disclosures in the financial statements outlining that the Trust had departed from the Local Government Act 2002 because it did not prepare a statement of intent for the next reporting period.

West Coast Rural Fire Authority

Years ended 30 June 2007 and 30 June 2008

The Authority did not report performance information that reflected the Authority's achievements, as measured against performance targets. This is because the Authority did not prepare a statement of intent for the reporting years. We drew attention to the disclosure in the financial statements that outlined the Authority had departed from the Local Government Act 2002 because it did not prepare a statement of intent for the next reporting periods.

Southland Regional Heritage Committee (Gore District Council, Southland District Council, and Invercargill City Council)

Year ended 30 June 2014

The Committee did not report performance information that reflected the Committee's achievements, as measured against its performance targets. This is because the Committee did not prepare a statement of intent for the year. We highlighted that the Committee had departed from the Local Government Act 2002 because it also did not prepare a statement of intent for the next reporting period.

Modified audit opinions – Qualified opinions

Christchurch City Council and Group

Year ended 30 June 2014

Because of the effects of the earthquakes on the assets owned by the Council and Group, it has been difficult for the Council to prepare financial statements that comply with generally accepted accounting practice and legislation. Our work was limited because we were unable to obtain sufficient audit evidence over:

- *the carrying value of land, buildings, the roading network, the sewerage system, and the stormwater system*

  Based on the best information currently available, the Council was able to report the financial effects of the damage from the earthquakes. However, the Council was not able to estimate the costs of repair for all these assets with sufficient reliability and has not revalued them. As a result, the carrying value and the associated depreciation expense might be materially incorrect. This matter also affected the comparative information.

- *the revaluation of water supply assets relating to prior year reporting periods*

  Although we have obtained audit evidence of the carrying value of the water supply assets at 30 June 2014, we were unable to obtain evidence to confirm the amount of the revaluation increment and the depreciation expense that should have been recognised in the prior reporting periods. As a result, the revaluation increment is likely to be overstated and the depreciation expense understated, as the carrying values of the water supply assets should have been higher in 2013.

- *the carrying value of insurance receivable*

  The Council is still in negotiation with its insurers and has not made any allowance of any amount that may not be recoverable. We were not able to obtain sufficient appropriate audit evidence over the insurance receivables that will be recovered and when that recovery is likely to occur. We were unable to determine whether current and deferred tax balances are materially correct until the time the Council decides the future of the Lancaster Park Stadium, which for tax purposes is deemed to be irreparable and a replacement stadium will be built. This decision is subject to the negotiations between the Council and its insurers.

- *the capital work in progress balance recognised in the financial statements*

  The Council was unable to accurately classify the amount of capital work in progress of $1.105 billion (which is related to work completed by the Stronger Christchurch Infrastructure Rebuild Team) into completed assets, assets still under construction, and operating expenditure that would otherwise be recognised in the statement of comprehensive income. Further, the Council was unable to identify completed assets within the completed work in progress balance and the completed assets have not been depreciated, and the old and damaged assets that have not been replaced have not been written off.

Our audit was also limited because we were unable to obtain audit evidence in “what did it cost” sections and the associated variance explanations including the reported comparative information in the statement of service provision.

We drew attention to the disclosures about comparative information in the statement of comprehensive income that referred to the deficiencies in rates-setting resolutions between 2004/05 and 2012/13, specifically in how payment dates were set and how rates penalties were charged. A Bill to correct the deficiencies in the rates set between 2004/05 and 2012/13 had its first reading in Parliament on 28 May 2014 and has been referred to the Local Government and Environment Committee.

Vbase Limited (Christchurch City Council)

Year ended 30 June 2013

Our audit was limited because we could not provide assurance on the valuation of buildings as the assumptions underlying the company's valuation were subject to uncertainty and there was insufficient market evidence to support a reliable fair value for the buildings as at 30 June 2013. In addition, we could not provide assurance on the comparative information presented in the financial statements of the Council, which was issued a disclaimer of opinion for the year ended 30 June 2012, because of the effect of the Christchurch earthquakes.

Tauranga City Investments Limited and Group (Tauranga City Council)

Year ended 30 June 2014

Our audit was limited in respect of the comparative information because, for the year ended 30 June 2013, we were unable to get assurance about the completeness of cash receipts revenue. We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the company was disestablished on 1 July 2014 and its assets and liabilities transferred to Bay Venues Limited.

The World Buskers Festival Trust (Christchurch City Council)

Year ended 30 June 2014

The Trust had limited controls over some door donations revenue due to the Trust's limited controls over that revenue, which limited the assurance we could get about the completeness of that revenue.

Parakai Licensing Trust

Year ended 31 March 2010

Our audit was limited because we could not get enough assurance over some rental revenue due to the Trust's limited controls over that revenue. We also drew attention to the disclosures in the financial statements that referred to the disestablishment of the Licensing Trust on 10 July 2013 and its operations assets and liabilities were gifted to the Helensville District Health Trust. The Trust's undertakings were vested in the Parakai Community Trust by Order in Council on 12 June 2013. The Trustees' decision not to adjust the financial statements to reflect the disestablishment was appropriate.

Ongarue Hall Society Incorporated

Years ended 30 June 2011, 30 June 2012, and 30 June 2013

Our audit was limited because we could not get enough assurance about the completeness of receipts (as the entity had limited controls over those receipts). We drew attention to the disclosures in the financial statements that referred to the disestablishment of the entity and the transfer of its operations, assets and liabilities to the Department of Conservation on 16 September 2013.

Nelson Creek Recreation Reserve Board

Period ended 2 March 2011

Our audit was limited because we could not get enough assurance about the completeness of hall hire receipts (as the Reserve Board had limited controls over those receipts). We also drew attention to the disclosures in the statement of accounts that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Reserve Board was disestablished on 2 March 2011 and all functions, assets, and liabilities were transferred to the Nelson Creek Community Society Incorporated on that date.

Te Kauwhata Licensing Trust

Year ended 31 March 2014

The Trust had limited controls over public bar, lounge bar and wholesale revenue, which limited the assurance we could get about the completeness of this revenue.

Mapiu Sport and Recreation Committee

Year ended 30 June 2011

The entity had limited controls over some receipts, which limited the assurance we could get about the completeness of the receipts.

Waikiekie Domain Board

Year ended 30 June 2012

The Board had limited controls over some receipts from leases and other income, which limited the assurance we could get about the completeness of the receipts.

Whatitiri Domain Board

Year ended 30 June 2012

The Board had limited controls over receipts other than local authority grants and interest income, which limited the assurance we could get about the completeness of the receipts.

Taurikura Hall Board

Year ended 30 June 2013

The Board had limited controls over hall hire receipts, which limited the assurance we could get about the completeness of the receipts.

Kaikoura Enhancement Trust and Group (Kaikoura District Council)

Years ended 30 June 2009 and 30 June 2010

Our audit was limited because we could not get enough audit evidence of the carrying value of the Trust's inventory balance and the associated cost of goods sold. This is because the Trust did not perform a stocktake of inventory and there were insufficient records to determine the balance of inventory.

Poukiore Domain Board

Year ended 30 June 2013

Our audit was limited because we could not get appropriate audit evidence about the quantities and condition of livestock recognised in the statement of financial position. The Board also had limited controls over donations, which limited the assurance we could get about the completeness of these donations.

Waipu Cove Reserve Board

Years ended 30 June 2009 and 30 June 2010

The Board had limited controls over some revenue and expenses that were paid from unbanked revenue due to the Board's limited control over that revenue and expenses, which limited the assurance we could get about the completeness of these items. Our audit was also limited because we could not determine whether the omission of annual leave entitlements had a material effect on the financial statements because the Board did not operate an adequate system to record annual leave balances.

Ohau Hall Board

Year ended 30 June 2013

The Board had limited controls over some hall hire and scrap sale revenue, which limited the assurance we could get about the completeness of the hall hire and scrap sale revenue.

Ruapuke Cemetery

Year ended 31 March 2013

The Trustees had limited controls over some book sale receipts and books remaining in stock, which limited the assurance we could get about the completeness of the book sale receipts and the carrying value of books remaining in stock.

Unmodified audit opinions with "emphasis of matter" paragraphs

Central Hawke's Bay District Council and Group

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements that outlined that:

- the Council's investment in Infracon Limited had been written down to nil value; and
- the uncertainties that exist over the valuation of that investment in Infracon Limited because the outcome of the liquidation process is uncertain.

Chatham Islands Council

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements that outlined the Council, in setting the 2013/14 rates, failed to adopt a rates resolution as required by the Local Government (Rating) Act 2002. The Council was investigating options to address this situation.

Far North District Council and Group

Year ended 30 June 2013

We drew attention to the disclosures in the financial statements about the Council spending $2.258 million to date on the Sweetwater Aquifer Scheme, resulting in assets with a carrying value of $0.747 million and operating expenditure of $1.511 million. Up to a further $250,000 was to be paid once the landowner has subdivided their property to enable title to the bore field property to be passed to the Council. We drew attention to the Council's investigation into all aspects of the Scheme, which included a review of the Council's decision-making and project management process relating to the Scheme, and its financial management of the Scheme. We also drew attention to the fact that the Council fail to adopt its annual report within the statutory reporting deadline.

Kaipara District Council

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements that referred to the possible significant financial effect if the ruling on the Mangawhai Ratepayers and Residents Association's appeal to the Court of Appeal was not in favour of the Council. This would overturn the High Court's judgment in relation to the Council's ability to use rates revenue, both past and future, to service the debt raised to fund the Mangawhai Community Wastewater Scheme.

Taupō District Council and Group

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements that referred to the breach of the Local Government Act 2002 because the Council failed to adopt its long-term plan 2012-22 by 1 July 2012, which is needed for accountability reasons and for setting valid rates under the Local Government (Rating) Act 2002. Because the long-term plan was not adopted until 24 September 2013, the Council applied to the Department of Internal Affairs for an Order in Council to validate the late adoption of the long-term plan as if it had been adopted before 1 July 2012.

Tuam Limited (Christchurch City Council)

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements that referred to the uncertainties of the carrying value of the settlement receivable (which was recognised in the trade and other receivables), due to inherent uncertainties in the information on which the carrying value of the asset has been based.

Creative HQ Limited (Wellington City Council)

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements that referred to the uncertainties in measuring the fair value of shares in incubator and accelerator companies because of the "early stage" nature of the investments and the absence of quoted market prices.

Inframax Construction Limited (Waitomo District Council)

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements that referred to the uncertainties surrounding the going-concern assumption. The validity of the going-concern assumption depends on the company's reliance on the continued financial support from Waitomo District Council and Westpac New Zealand Limited, and its ability to achieve the financial performance and cash flows at forecast levels.

Pulse Energy Limited and Group (formerly known as Pulse Utilities New Zealand Electricity Limited) (Buller Electricity Limited)

Year ended 31 March 2013

We drew attention to the disclosures in the financial statements that referred to the company having its liabilities exceeding its assets by $4.1 million and being in breach of certain funding covenants. The validity of the going-concern assumption depended on the company and Group's ability to improve cash flows, renegotiate certain funding facilities, and secure additional equity to fund its activities.

New Zealand Local Government Insurance Corporation Limited and Group – Trading as Civic Assurance

Year ended 31 December 2013

We drew attention to the disclosures in the financial statements that referred to the going-concern assumption being used in preparing the financial statements, despite the company being in arbitration with its reinsurers relating to the limits of cover under the reinsurance programme.

We also drew attention to the uncertainty as to when the company would be able to resume its normal business activities and whether the company would make sufficient profits to allow all of its deferred tax assets to be recovered. The validity of the going-concern assumption depends on the limitation of the company's net outstanding claims liability to $5.0 million.

The Village Pool Charitable Trust (Hastings District Council)

Year ended 30 June 2013

We drew attention to the disclosures in the financial statements that referred to the uncertainties surrounding the going-concern assumption. The validity of the going-concern assumption depended on the decision by the Council in its review of local pool trusts as part of its review of aquatic facilities.

Oamaru Licensing Trust

Year ended 31 March 2014

We drew attention to the disclosures in the financial statements that referred to the going-concern assumption being appropriately used in preparing the financial statements. The validity of the going-concern basis depended on the Trust being able to obtain ongoing funding as it was required to renew its loans in November 2014 because, at 31 March 2014, it was in breach of one of its banking covenants.

Rimutaka Licensing Trust and Group

Year ended 31 March 2013

We drew attention to the disclosures in the financial statements that referred to the uncertainties surrounding the going-concern assumption, which include continued pressure on the Trust's turnover and the options on the future of the Trust. The validity of the going-concern assumption depended on the decisions to be made by the Trustees on the future of the Trust by considering the various options that are available to them.

Ruawhata Hall Board

Year ended 30 June 2013

We drew attention to the disclosures in the financial statements that referred to the uncertainties surrounding the going-concern assumption. The Board will be likely to be disestablished and its activities transferred to the Department of Conservation or the Tararua District Council. The Department is yet to decide whether it would approve the disestablishment of the Board.

Christchurch Stadium Trust

Year ended 31 December 2013

We drew attention to the disclosures in the financial statements that referred to the going-concern basis appropriately not being used in preparing the financial statements because the Trust had a limited life and had an obligation to decommission the stadium and wind up once Christchurch has a new permanent stadium. We also drew attention to the expected future financial difficulties being forecast, which the Trust will not be able to meet without additional support from external parties.

Delta Investments Limited (Dunedin City Council)

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements that referred to the dissolution basis appropriately being used in preparing the financial statements because the company ceased trading and was deregistered on 11 July 2014.

Scope Infrastructure Limited

Year ended 31 March 2014

We drew attention to the disclosures in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the company ceased trading.

Cranberries New Zealand Limited

Year ended 31 March 2014

We drew attention to the disclosures in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the company ceased trading on 31 January 2014 after the sale of its fixed assets.

Taranaki Provincial Patriotic Council

Year ended 30 September 2012

We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Council approved in principle the formation of a trust to assume ownership of the assets of the Council and to supersede its functions.

Cooks Gardens Trust Board

Year ended 30 June 2013

We drew attention to the disclosures in the financial statements that referred to the dissolution basis appropriately being used in preparing the financial statements because the Trust ceased trading on 31 January 2014 and the Trustees passed a resolution on 12 March 2014 to dissolve the Trust.

Puhoi Cemetery

Years ended 31 March 2011, 31 March 2012, and 31 March 2013

We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the control and management of the Cemetery was transferred to Auckland Council on 20 February 2014.

St James Theatre Limited (Wellington City Council)

Year ended 30 June 2012

We drew attention to the disclosure in the financial statements about the company not disclosing performance information because the company was inactive and did not have any performance to report, and that the company failed to comply with the law by not completing a statement of intent for the year beginning 1 July 2011. We drew attention to the disclosures in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the company was wound up and its operations were transferred into Wellington Venues Limited on 1 July 2011.

St James Theatre Charitable Trust and Group (Wellington City Council)

Year ended 30 June 2012

We drew attention to the disclosures in the financial statements about the Trust and Group not disclosing performance information because the Trust and Group were inactive and did not have any performance to report, and that the Trust and Group failed to comply with the law by not completing a statement of intent for the year beginning 1 July 2011. We drew attention to the disclosures in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the Trust and Group were wound up and the operations of the St James Theatre Charitable Trust and St James Theatre Limited were transferred into Wellington Venues Limited on 1 July 2011.

Luggate Nominee Limited (Dunedin City Council)

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements that referred to the dissolution basis appropriately being used in preparing the financial statements because the shareholders intended to deregister the company after approving the 30 June 2014 financial statements. We also drew attention to the disclosure in the financial statements about the company not having a statement of intent because it is inactive and did not have any performance to report.

Tauwhareparae Forests Limited (Gisborne District Council)

Year ended 30 June 2014

We drew attention to the disclosures in the financial statements about the company not having a statement of service performance because it is inactive and did not have any performance to report. The company also did not comply with the law by failing to complete a statement of intent for the period beginning 1 July 2015 by 30 June 2014.

The Hauraki Rail Trail Charitable Trust

Period ended 30 June 2012

We drew attention to the disclosures in the financial statements outlining that the Trust failed to comply with the law by not completing a statement of intent for the next reporting period.

Appendix 3
Deciding on the form of our 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 our audits.

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.[11]

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 be caused 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.

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

11 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.*

Adverse opinions

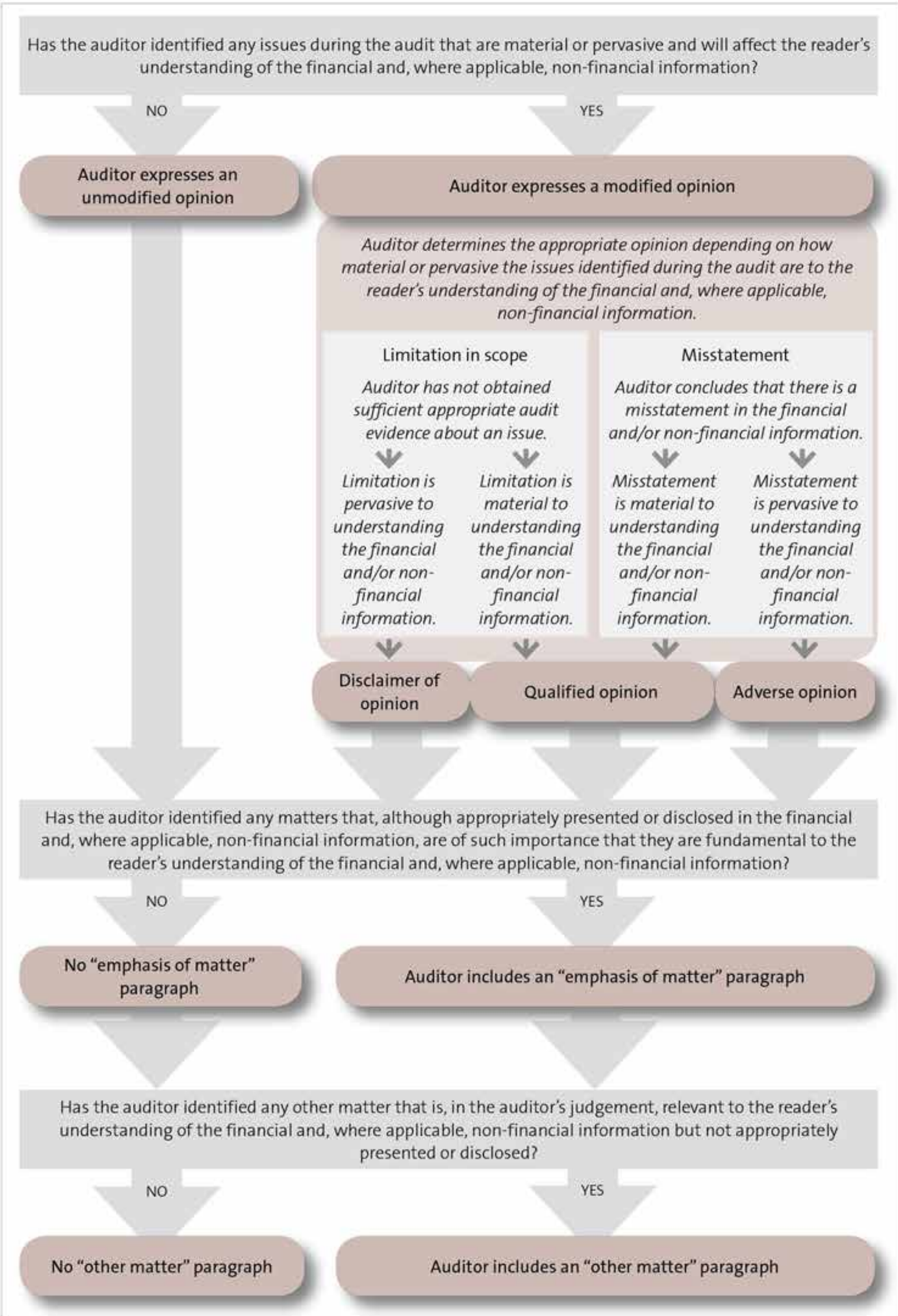
An adverse opinion, the most serious type of non-standard audit report, is expressed when the appointed auditor, having got enough appropriate audit evidence, concludes that misstatements, individually or together, are material and pervasive to the financial and/or non-financial information.

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 performance information because of the potential interaction of the uncertainties and their possible cumulative effect on the financial and/or non-financial information.

Deciding on the appropriate form of the 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*.

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:

- Education for Māori: Relationships between schools and whānau
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Fourth monitoring report
- Ministry for Primary Industries: Managing the Primary Growth Partnership
- Central government: Results of the 2013/14 audits
- Government planning and support for housing on Māori land
- Ministry of Social Development: Using a case management approach to service delivery
- Water and roads: Funding and management challenges
- Making the most of audit committees in the public sector
- Accident Compensation Corporation: Using a case management approach to rehabilitation
- Challenges facing licensing trusts
- Annual Report 2013/14
- Ashburton District Council: Allegations of conflicts of interest affecting decisions on a second bridge
- New Zealand Transport Agency: Maintaining and renewing the state highway network – follow-up report
- From auditor to soldier – stories of the men who served
- Accident Compensation Corporation: How it deals with complaints
- Ministry of Social Development: How it deals with complaints
- State-owned enterprises: Results of the 2012/13 audits

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.

Notification of new reports

We offer facilities on our website for people to be notified when new reports and public statements are added to the website. The home page has links to our RSS feed, Twitter account, Facebook page, and email subscribers service.

Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests. Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.