Controller and Auditor-General
Tumuaki o te Mana Arotake

B.29 [18c]

Local government: Results of the 2016/17 audits

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Office of the Auditor-General

Local government: Results of the 2016/17 audits

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Overview

Tēnā koutou.

This report presents the results of our annual audits and other work in local government during 2016/17. Some of our findings are recurring, which is of concern.

Elected members are ultimately responsible for what a local authority does, how it does it, and the consequences. I acknowledge the multiple demands on local authorities to balance service delivery and costs, and we hope that the findings in this report make a useful contribution to addressing matters that need to be considered.

Some of the matters raised in this report are matters we have raised before

The financial results for 2016/17 did not reveal dramatic changes or significant new trends compared to previous years. That said, the concerns that we have had in recent years remain.

We continue to be concerned that local authorities might not be investing enough to ensure ongoing delivery of services. We recognise that we cannot make firm conclusions using financial information alone and that each local authority has different circumstances. However, where underinvestment occurs beyond the short term, service levels may not be maintained in the future as the risks of asset failure increase.

Relevant and reliable information about assets remains a challenge for local authorities. Without good information about assets, elected members cannot make good decisions about whether they are spending the right amount at the right time on the assets they govern.

Local authority revenue and debt continues to increase. This is not wholly unexpected, and local authorities as a whole are managing their debt prudently. However, local authorities should continue to be mindful of the level of debt they hold and ensure that they have enough forms of revenue to service it.

Main issues in 2016/17

Rating practices have continued to raise compliance and legal concerns. We continue to recommend that local authorities seek guidance and expert assurance and advice when setting and administering rates. The ongoing Northland Regional Council case highlights some of the complexities in the rating area.

There were several large severance payments to departing senior employees in 2016/17. Our auditors reviewed how the local authorities and council-controlled organisations that made these payments authorised and disclosed them in their annual reports. Disclosure requirements are not straightforward. It can be helpful to readers of annual reports for entities to add extra information to explain the disclosures of severance payments.

We continue to recommend that public entities take a careful approach to making severance payments to ensure that they are not a waste of public funds and will withstand scrutiny.

Our audit reports and work on elected members' interests

During 2017, we issued 375 audit reports on the financial statements and performance information of local authorities, their subsidiaries, and related organisations. Of the 375 reports, 359 included unmodified audit opinions, which meant that reliable information is available to most communities and stakeholders.

Earthquake-related issues affected the opinions we issued for Kaikōura District Council and Hurunui District Council. The November 2016 earthquake demonstrated, yet again, how dramatic, disruptive, and expensive these events can be. They serve as a reminder for local authorities to plan for and try to mitigate the risks of natural hazards.

Local authorities are required to publicly release their adopted annual report and annual report summaries within statutory time frames. In 2017, six local authorities did not release their annual reports within one month of adoption and 13 missed the deadline to release their summary annual reports. It is concerning that some local authorities are not meeting their basic accountability obligations.

We administer the Local Authorities (Members' Interest) Act 1968, which governs the financial interests that elected members can have with the local authorities they serve. The Act can also have implications for the eligibility of those seeking election to council. The Act is 50 years old, outdated, and challenging to administer. We will continue to raise our concerns with the Department of Internal Affairs (as the administering department for the Act).

Looking ahead

When this report is published, local authorities should have prepared their consultation documents for their 2018-28 long-term plans and will be starting to receive feedback from their communities.

In completing our work on local authority consultation documents and long-term plans, we have a particular focus on local authorities' asset-related forecasts. We are particularly interested in the matters we have raised above and in understanding the effects of any underinvestment in maintaining assets.

We will report our findings of our audits on the local authority consultation documents and 2018-28 long-term plans later in the year.

Nāku noa, nā,

Greg Schollum
Deputy Controller and Auditor-General

26 March 2018

Financial results and trends

1

1.1 In this Part, we consider the financial results for local authorities for 2016/17. We are interested in how local authorities performed compared to what they planned and budgeted for and whether they prudently managed their debt.

1.2 In completing our analysis, we wanted to answer the following questions:

- Are local authorities maintaining their budget commitments to invest in their assets?
- Are local authorities adequately reinvesting in their assets?
- Did local authorities spend what they planned to on their operations?
- Did local authorities collect the revenue they expected to?
- Did local authorities prudently manage their debt?

1.3 Except for Auckland Council, we have used parent-only results. We analysed the group results for Auckland Council because it produces a group budget in its long-term plan and we wanted to compare the actual 2016/17 information with the budget.

Are local authorities maintaining their budget commitments to invest in their assets?

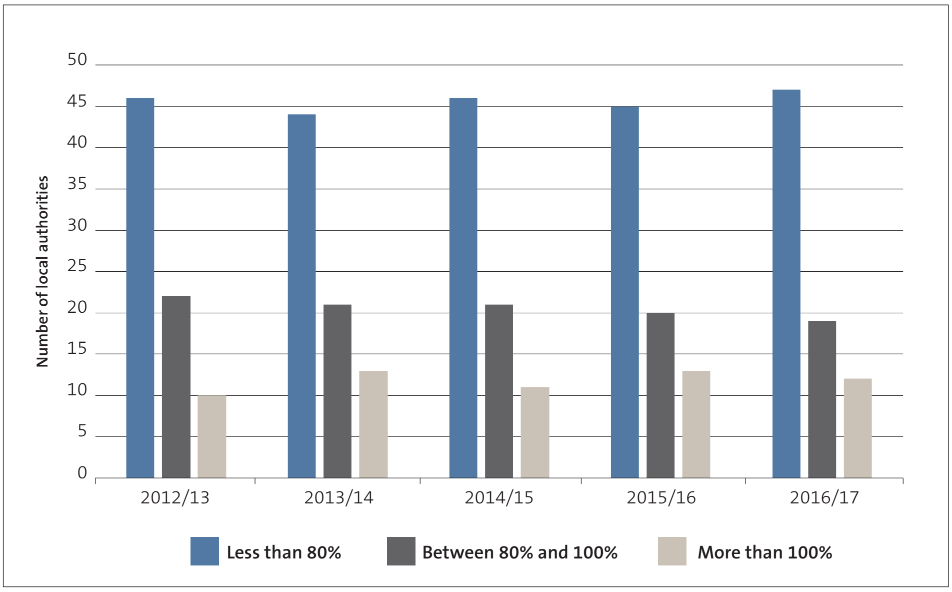
1.4 Most local authorities did not spend as much on their assets as they had planned. In 2016/17, local authorities' capital expenditure was $3.8 billion, which was about 78% of the $4.8 billion budgeted.[1,2] Although this is an improvement on the 2015/16 results, where local authorities spent about 70% of what they budgeted, local authorities continue to spend less on their assets than they had planned. We have observed and reported on this in previous years.

1.5 As Figure 1 shows, since 2012/13, most local authorities have spent less than 80% of their capital expenditure budget.

1 This information has been extracted from the statement of cash flows of local authorities. It includes only the cash that local authorities spent on purchasing property, plant, and equipment and intangible assets.

2 When capital expenditure, as reflected in all local authorities' whole-of-council funding impact statements, is compared to budget in those statements, 81% of budgeted capital expenditure has been incurred. We consider that the difference between the 78% and the 81% is because of year-end accruals.

Figure 1
Local authorities categorised by actual capital expenditure as a percentage of their budgeted capital expenditure, 2012/13 to 2016/17



1.6 Auckland Council had the largest variance to budget ($403 million), spending 79% of the $1.9 billion budgeted. Auckland Council reported that this is mainly because of project delays and deferrals. Project delays primarily occur when a project's planning and design phase takes longer than expected. Many other local authorities that underspent on their capital expenditure reported similar reasons to Auckland Council.

1.7 The financial information alone does not tell us whether the ongoing underspending affects the quality of local authorities' service delivery. We comment further on this point in paragraphs 7.49-7.52, noting that underspending can be because of budgeting inaccuracies as well as, or instead of, performance issues.

Do these capital expenditure trends differ for major infrastructural assets?

1.8 Local authorities are responsible for owning and managing the following main groups of infrastructure assets:

- water supply;
- sewerage;

- stormwater drainage;
- flood protection; and
- roading and footpaths.

1.9 As in previous years, we collected and analysed the capital expenditure information that was disclosed in the funding impact statements for 2016/17. Capital expenditure has to be disclosed in one of the following three categories:

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

1.10 As shown in Figure 2, spending remains generally below budget, which is consistent with our previous findings.[3] This is especially the case for the water supply and flood protection infrastructure assets. The flood protection underspending is affected by the results from Christchurch City Council. Its original 2015-25 long-term plan budget was substantially reduced for the 2016/17 annual plan because of revised timelines for post-earthquake flood protection works.

1.11 As we have reported in the past, if local authorities continue to underinvest in their assets they might not be able to maintain service levels in the future. We comment further on this point in paragraphs 7.49-7.52.

1.12 Figure 2 shows three areas where the actual spending was significantly greater than budgeted. In each of these areas, one local authority spent significantly more than it budgeted, heavily influencing the results. Christchurch City Council spent about $114 million more on sewerage (renewal and replacement) and $40 million more on stormwater drainage (renewal and replacement) than budgeted. Both of these were to complete earthquake-recovery work.

1.13 Auckland Council spent $23 million more on stormwater drainage (additional demand) than budgeted. This was because projects progressed ahead of schedule. If we exclude the significant additional spending by Christchurch City Council and Auckland Council, the actual spending against budget for these three areas would be between 93% and 108% of what was budgeted.

3 When completing the analysis included in Figure 2, we have used the "Year 2" or "2017 forecast" figures included in local authorities' 2015-25 long-term plans. Local authorities are not required to publish revised activity funding impact statements in their annual plans. Although we are using older local authority budget forecasts, we do not consider that this affects our analysis, other than as explained in paragraph 1.10. A local authority will amend its long-term plan if it plans a significant change in level of service or decides to transfer the ownership or control of a strategic asset. As noted in paragraph 7.44, there have been relatively few amendments to 2015-25 long-term plans.

Figure 2
Core activity funding impact statements – total actual capital expenditure and variances to budgeted capital expenditure

Capital expenditure types		Additional demand	Improve level of service	Renewal and replacement
Water supply	Actual capital expenditure	$117.9m	$117.1m	$149.0m
	% of budget spent	86%	74%	65%
Sewerage	Actual capital expenditure	$178.2m	$111.5m	$393.6m
	% of budget spent	69%	88%	131%
Stormwater drainage	Actual capital expenditure	$85.1m	$63.5m	$132.4m
	% of budget spent	139%	108%	146%
Flood protection	Actual capital expenditure	$6.8m	$40.3m	$15.5m
	% of budget spent	58%	98%	30%
Roading and footpaths	Actual capital expenditure	$106.4m	$313.2m	$825.3m
	% of budget spent	66%	92%	111%

Are local authorities adequately reinvesting in their assets?

1.14 In previous years, we have outlined our concern that local authorities might not be adequately reinvesting in their assets.[4] After our analysis of the 2016/17 results, those concerns remain.

1.15 To consider how local authorities are reinvesting in their assets, we compared renewal and replacement capital expenditure to depreciation. We consider depreciation to be the best estimate of what portion of the asset was used during the financial year (see Figure 3).

1.16 Comparing renewal and replacement capital expenditure to depreciation shows that, for most local authorities, asset reinvestment was less than 100% of depreciation. These results might indicate that the quality of the assets is deteriorating. If nothing changes, the cost of maintaining service levels might fall on future generations.

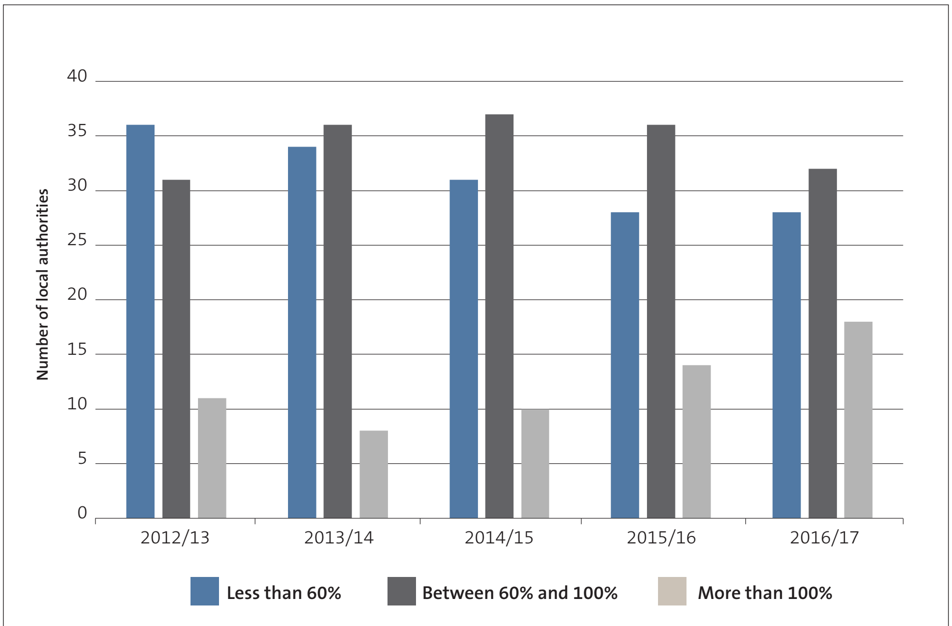
1.17 Since 2013/14, there has been an increase in the number of local authorities with expenditure on renewals and replacement that is more than 100%

4 See, for example, Office of the Auditor-General (2017), *Local government: Results of the 2015/16 audits*, pages 10 and 11.

of depreciation. This increase is largely because some local authorities are completing large, one-off renewal projects.

1.18 In the last year, there was no change in the number of local authorities (28) whose renewal and replacement capital expenditure was less than 60% of depreciation. Fewer local authorities are within the reasonable achievement range of between 60% and 100% of depreciation. However, there are only three local authorities whose renewal and replacement capital expenditure has been consistently more than 100% of depreciation in each year since 2012/13. We remain concerned that local authorities are not adequately investing in their assets.

Figure 3
Local authoriries categorised by renewal and replacement capital expenditure as a percentage of depreciation, 2012/13 to 2016/17



1.19 This calculation (expenditure on asset renewals and replacements compared to depreciation) indicates only whether the expenditure is enough to maintain existing assets. We urge individual local authorities to continue considering whether they are adequately maintaining their assets. They need to take into account their circumstances and look at this calculation in more detail to provide assurance to their communities. We comment further on this point in paragraphs 7.49-7.52.

Did local authorities spend what they planned to on their operations?

1.20 In 2016/17, total operating expenditure for local authorities was $10.6 billion. This was 5.8% more than the $10 billion that was budgeted and $100 million more than the operating expenditure in 2015/16. Fifty-seven local authorities spent more than they had budgeted. Five local authorities spent 25% more than they had budgeted.

1.21 From our analysis, there were no consistent reasons why expenditure was higher than budgeted.

1.22 Christchurch City Council had the largest variance to budget, with operating expenditure that was $157 million more than the $715 million budgeted. Of this variance, $56 million related to projects that were treated as operational but had originally, and reasonably, been budgeted as capital expenditure. An additional $46 million related to losses on the disposal of assets. Items such as disposals of assets can be difficult to budget for or control. The remainder of the variance is made up of several minor factors.

1.23 The two largest percentage increases in operational expenditure from budget were Hurunui District Council ($23 million or 61% more than budget) and Kaikōura District Council ($15 million or 165% more than budget). Both local authorities incurred more expenditure as a result of the November 2016 earthquake. The expenditure related to emergency repair and recovery expenditure and the impairment of assets damaged in the earthquake.

Did local authorities collect the revenue they expected to?

1.24 In 2016/17, local authorities received more revenue than they budgeted for. For key revenue sources such as rates and subsidies and grants, local authorities received what they expected. However, for development and financial contributions and user charges, they received more revenue than expected.

1.25 In 2016/17, local authorities recorded operational revenue of $12.1 billion. This was 12.5% more than the $10.8 billion that was budgeted and about $1 billion more than revenue recorded in 2015/16. Sixty-six local authorities recorded more revenue than budgeted, with seven local authorities recording over 25% more revenue than budgeted.

1.26 As shown in Figure 4, “rates” remained the main source of revenue, at 47% of total revenue. Revenue from rates was also similar to what was budgeted. Local authorities recorded significantly more revenue from “development and financial contributions” and “other operating revenue”.

Figure 4
Local authorities' operating revenue, by type

Key revenue sources	2016/17 actual revenue amount $ million	2016/17 budgeted revenue amount $ million	Percentage over budget
Rates	5,653	5,638	0.3%
Subsidies and grants	1,414	1,364	3.7%
Development and financial contributions	381	288	32.5%
Other operating revenue	4,685	3,491	34.2%

1.27 Development and financial contributions depend on the growth in a city, district, or region and are, as a result, difficult to budget for.

1.28 Other operating revenue is made up of:

- **investments**, such as interest and dividend income;
- **user charges**, which are fees local authorities charge for a variety of activities, including building and resource consent processes, dog licensing, and food premises licensing;
- **vested assets**, which represent the value of assets donated by others to local authorities (this is a non-cash revenue source); and
- **fair value gains on financial assets and liabilities, and other assets such as investment property** (this is a non-cash revenue source).

1.29 Factors outside a local authority's control, such as changes to growth, interest rates, or the property market, can significantly influence revenue sources. Auckland Council had the largest dollar variance to budget, receiving $516 million more revenue than the $4 billion that was budgeted.[5] Of this variance, $459 million was from the net movement in the fair value of financial assets and financial liabilities, and more vested assets received than expected.

1.30 Many of the local authorities that recorded significant increases in revenue were also affected by fair value movements and received higher than expected vested assets.

1.31 Several local authorities recorded significant revenue as a result of natural disasters, such as earthquakes, flooding, or fire, which were needed and used to cover the cost of the natural disaster, including the reinstatement of damaged assets. For example, Kaikōura District Council received $16.4 million in grant revenue and advances from insurers. This is more than Kaikōura District Council's total budgeted revenue for 2016/17 ($8.8 million).

5 We have included the net other gains and share of surplus in associates and joint ventures recognised by Auckland Council in our revenue analysis.

Did local authorities prudently manage their debt?

1.32 Many local authorities use debt to fund long-life assets. As a general principle, debt should not be used to fund operations. Furthermore, local authorities usually use debt to fund new assets to meet demand or to increase levels of service, rather than to fund renewals.

1.33 However, local authorities can choose to use debt to fund any type of capital expenditure. Because many local authorities do not spend all of their capital expenditure budgets, we are not surprised that local authority debt was less than budgeted.

1.34 Overall, local authorities continue to manage their debt prudently. Fewer local authorities than in previous years face financing costs that are greater than 15% of their rates revenue.[6] Only one local authority is breaching its debt-servicing benchmark (see paragraph 1.44).

1.35 Local authorities had $15 billion of debt at 30 June 2017, which was 5% or $0.8 billion less than budgeted, but $1.4 billion more than at 30 June 2016.

1.36 Not all local authorities carry debt. At 30 June 2017, 11 local authorities had no debt. Five of these were regional councils. Ten of these local authorities had budgeted to have no debt.

1.37 Auckland Council recorded the most debt at 30 June 2017 and made up about 55% of total local authority debt. Although Auckland Council had the largest increase in debt of all the local authorities, up $689 million from the previous year, debt was $466 million less than what it had budgeted.

1.38 Despite the large dollar value of Auckland Council's debt, it is operating within the parameters set in its financial strategy and maintains a high credit rating, which has reduced the cost of borrowing.

1.39 The effect of debt on local authorities is best assessed by considering the cost of servicing debt. In our view, managing financing costs that are more than 15% of rates revenue is likely to be difficult and will reduce a local authority's flexibility to respond to unexpected changes.

1.40 However, there is no specific rule on the appropriate level of such costs. It is up to individual local authorities to determine limits that they are comfortable with based on their circumstances and to disclose these in their financial strategies. Local authorities that borrow through the New Zealand Local Government Funding Agency must also comply with a set of financial covenants.

6 We have applied our judgement in using 15% in our analysis. The New Zealand Local Government Funding Agency requires local authorities to have net interest expenditure as a proportion of rates revenue of less than 20% unless they have a long-term credit rating of "A" level or higher. International practice suggests that interest costs to revenue can become challenging for a public entity to manage when they exceed 10%.

1.41 The proportion of rates revenue used to meet financing costs was 14.1% for 2016/17, which was 0.6% less than budgeted.[7] The proportion is more (by 0.4%) than for 2015/16. This shows the importance of local authorities being mindful of the level of debt they hold and ensuring that they have enough forms of revenue to service it.

1.42 Four local authorities had financing costs as a proportion of rates revenue at or above 15% in 2016/17. These four local authorities budgeted for this position. We are pleased to see that this has reduced from last year, when seven local authorities were in this position. There are also two fewer local authorities that budgeted for their financing costs as a proportion of rates revenue to be at or above 15%.

1.43 Local authorities report against prudence benchmarks in keeping with the Local Government (Financial Reporting and Prudence) Regulations 2014. These include three types of benchmarks related to debt:

- debt affordability benchmark;
- debt servicing benchmark; and
- debt control benchmark.

1.44 The four local authorities that had higher financing costs as a proportion of rates revenue all reported that they met their debt affordability and debt control benchmarks in 2016/17. However, one local authority reported that it did not meet its debt servicing benchmark in 2016/17. This local authority needs to carefully monitor and manage this position.

7 Finance costs have been drawn from the statements of comprehensive income. It is possible that these figures could include non-cash items. This calculation is an indication only of the pressure that debt can place on a local authority. Other sources of revenue, such as development contributions and user charges, also contribute to meeting the cost of debt.

2 Timeliness of annual reporting

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

2.2 The Local Government Act 2002 requires local authorities to:

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

2.3 Appendix 1 provides more detail on when local authorities adopted and publicly released their annual reports and summary annual reports.

Adopting annual reports

2.4 In 2016/17, Kaikōura District Council, Hurunui District Council, and Mackenzie District Council missed the deadline to complete and adopt their audited annual report within four months after the end of the financial year.

2.5 For Kaikōura District Council and Hurunui District Council, there were substantial earthquake-related issues to address and it took extra time to resolve the treatments and disclosures. Kaikōura District Council and Hurunui District Council adopted their annual reports on 22 November and 23 November respectively. These local authorities' priorities were, rightly, to ensure the safety and welfare of residents and then to get their day-to-day functions operating again.

2.6 Mackenzie District Council adopted its annual report on 12 December 2017.

2.7 Figure 5 shows the number of local authorities that did not meet the statutory deadline for adopting their annual reports from 2012/13 to 2016/17.

Figure 5
Number of local authorities that did not meet the statutory deadline for adopting annual reports, 2012/13 to 2016/17

Statutory deadline for	Number of local authorities that did not meet the statutory deadline				
	2012/13	2013/14	2014/15	2015/16	2016/17
Adopting the annual report	6	3	2	2	3

Public release of annual reports and summary annual reports

2.8 Six local authorities missed the one-month deadline for releasing their annual reports to the community, and 13 missed the one-month deadline for releasing their summary annual reports. Figure 6 shows the number of local authorities that met the statutory deadline for releasing annual and summary annual reports from 2012/13 to 2016/17. Any delay undermines effective accountability, which in turn can undermine communities' trust and confidence in their local authority.

Figure 6
Performance in meeting the statutory deadline for releasing annual and summary annual reports, 2012/13 to 2016/17

	Number of local authorities that met the statutory deadlines				
	2012/13	2013/14*	2014/15**	2015/16***	2016/17
Releasing the annual report	75	72	75	74	72
Releasing the summary annual report	74	71	73	70	65

* The 2013/14 statistics for public release dates do not include the local authorities that adopted their annual reports after 5 December 2014.
** Out of the 76 that had met the statutory deadline for completing and adopting the annual report.
*** Out of 77 because we excluded one local authority that failed to meet its statutory deadline.

The importance of timely reporting

2.9 Annual reports provide information that helps communities to assess how well their local authority is performing. For communities to do this effectively, the information in the annual reports must be comprehensive and timely.

2.10 Releasing annual reports and summary annual reports is an important part of a local authority's accountability to its community. The summary annual report contains the most understandable information for most readers, and it is easy to circulate and make widely available.

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

2.12 Most local authorities publish their annual report on their website. In our view, we expect that all local authorities should be able to publish their annual reports on their website within a few days of adopting them.

3 The audit reports we issued in 2017

3.1 In this Part, we discuss the audit reports we issued.

3.2 During 2017, we issued 375 audit reports on the financial statements and performance information of local authorities, their subsidiaries, and entities associated with, or related to, local authorities (see Figure 7).

3.3 Through these audit reports, we inform readers of public entities' financial statements and performance information about the reliability of that information.

Figure 7
Audit reports issued on local authorities and subsidiaries, and entities associated with, or related to, local authorities

	Standard audit reports issued with unmodified opinion	Non-standard audit reports				Total number of audit reports issued**
		Unmodified opinion and "emphasis of matter" paragraph	Modified opinion (qualified)*	Modified opinion (disclaimer)	Modified opinion (adverse)	
Local authorities	67	5	6	1		79*
Council-controlled organisations	122	27	3			152
Energy companies and subsidiaries (owned by local authorities)	11					11
Airports and subsidiaries	20	2		1		23
Port companies and subsidiaries	23	4				27
Other local government organisations	69	9	3		2	83
Total	**312**	**47**	**12**	**2**	**2**	**375**

* During 2017, we issued Carterton District Council with qualified opinions for 2016/17 and 2015/16.

** We sometimes issue more than one audit report for an entity if unfinished audits from previous years are completed during the same year.

3.4 Of the 375 audit reports, 359 included unmodified opinions. This means that we had no concerns about the information reported, although we drew attention to important disclosures in 47 of those audit reports. The remaining 16 audit reports contained modified opinions. This means that either we disagreed with how the entity reported information or we could not get the evidence that we needed.

3.5 Appendix 2 summarises the matters included in the non-standard audit reports that we issued.

Natural hazard events and audit reports

3.6 The November 2016 earthquake demonstrated, yet again, how dramatic, disruptive, and expensive these kinds of natural hazard events can be. Although local authorities can plan for and try to mitigate the risks of natural hazards, they cannot predict where and when they will occur.

3.7 Kaikōura District Council and Hurunui District Council received non-standard audit reports because of the effects of, and uncertainties from, the November 2016 earthquake. Despite the challenges these local authorities faced during the 2016/17 financial reporting period, we provided assurance for a significant proportion of the information reported. (See paragraphs 3.16 and 3.24, and Appendix 2.)

3.8 For several other local authorities, the November 2016 earthquake damaged assets and caused disruption and delays to projects. Without modifying our audit opinion, we drew attention to disclosures in Marlborough District Council's annual report about earthquake-related uncertainties. (See Appendix 2.)

3.9 CentrePort Limited Group's assets suffered significant damage from the earthquake, seriously affecting the company's ability to operate. Without modifying our opinion for CentrePort Limited Group, we drew attention to earthquake-related uncertainties. Because they are shareholders, Greater Wellington Regional Council and Manawatu-Wanganui Regional Council (and several of CentrePort Limited Group's subsidiaries) also received "emphasis of matter" paragraphs relating to their financial statements in their audit reports. (See Appendix 2.)

3.10 In 2016/17, Christchurch City Council was able to resolve the last of its 2010/11 earthquake-related accounting and audit issues. Christchurch City Council still received a modified audit report in 2016/17, but this was limited to the previous year's comparative figures. This reflects the time it takes to determine the full effects of damage from a significant event. (See paragraph 3.26 and Appendix 2.)

3.11 Several local authorities were badly affected by floods, including at Edgecumbe in Whakatane District and South Dunedin.

3.12 Such events are an important reminder to local authorities to (re)assess the risks they face, especially to community safety and critical assets. To be able to respond well to emergency situations and move towards recovery, local authorities need to invest in governance arrangements and put in place operational and risk assessment plans before events and disasters occur. These plans should include what local authorities need to do to educate their communities, build resilience, put in place continuity measures, and how to consider insurance cover.

Disclaimers of opinion

3.13 Sometimes we cannot obtain the evidence we need from an entity. This lack of evidence can fundamentally affect our view of the entity's financial statements and performance information.

3.14 This usually occurs when the entity is dealing with circumstances outside its control, such as responding to natural disasters. In such situations, we issue a disclaimer of opinion. This means that we do not have the evidence to form an opinion on the financial statements and/or performance information.

3.15 In 2017, we issued two disclaimers of opinion for Kaikōura District Council and Titanium Park Joint Venture,[8] a council-controlled organisation of Hamilton City Council.

3.16 We were unable to obtain enough evidence about the service performance information for Kaikōura District Council. This was because the November 2016 earthquake prevented the Council from collecting information about the delivery and management of services. The significant lack of information about the delivery and management of services meant that we could not provide assurance on the statement of service performance in Kaikōura District Council's annual report.

3.17 Titanium Park Joint Venture could not give us enough evidence to support the value of a development property that was included in the financial statements. Because of the significance of the development property to the financial statements, we could not provide assurance on the financial statements.

Adverse opinions

3.18 Sometimes we disagree with the way an entity applies accounting standards, and the effect of what we disagree about is fundamental to the financial statements or performance information.

3.19 In 2017, we issued adverse opinions for Canterbury Museum Trust Board for 2015/16 and 2016/17.

8 Our opinion for Titanium Park Joint Venture for the year ended 30 June 2016 was issued on 11 August 2017.

3.20 The Museum's collection assets are integral to what it does. However, Canterbury Museum Trust Board does not recognise these assets or the associated depreciation expense in its financial statements.

3.21 Canterbury Museum Trust Board is of the view that all of its collection assets cannot be reliably measured. In 2017, we worked with Canterbury Museum Trust Board to try to better understand its reasons for having this view. Although we were not persuaded, we gave guidance to the Museum that set out what additional information it could provide to us to support its view that collection assets cannot be reliably measured.

3.22 Otago Museum Trust Board is also of the view that some collection assets cannot be reliably measured. We also worked with the Board to better understand its view. We continued to disagree with Board's view. However, because only some collection assets had not been valued, we did not consider our disagreement to be fundamental. Therefore, we issued a qualified opinion for Otago Museum Trust Board for 2016/17.

Qualified opinions

3.23 We qualify our audit opinion when either an aspect of an entity's financial statements or performance information does not comply with accounting standards or the entity cannot provide us with the necessary information to support it. In 2017, we qualified 12 opinions.

3.24 Six of the qualified opinions were for local authorities, three of which concerned uncertainties in their financial statements and/or performance information. As mentioned above, we were unable to get enough evidence from Hurunui District Council to confirm the values, losses, or write-offs of assets damaged in the November 2016 earthquake.

3.25 For Carterton District Council,[9] we could not rely on its underlying systems for reporting performance information. For Hawke's Bay Regional Council, there was not enough evidence of the impairment of development expenditure for the Ruataniwha Water Storage Scheme.

3.26 Two of the qualified opinions were for previous years' comparative information in the 2016/17 financial statements and/or performance information (that is, for 2015/16) – Christchurch City Council because of earthquake legacy issues, and Manawatu District Council because the auditor was not able to get enough appropriate audit evidence about the completeness of some response-times information reported in the statement of service performance.

3.27 Appendix 2 sets out the reasons for these qualifications.

9 For both 2015/16 and 2016/17.

Unmodified audit opinions with "emphasis of matter" paragraphs

3.28 Sometimes, public entities report matters in their financial statements and performance information that are important enough that we draw attention to them in our audit report. In 2017, 47 sets of financial statements contained information that required an "emphasis of matter" paragraph in our audit report.

3.29 For example, the November 2016 earthquake caused significant damage to several entities' assets. The uncertainties about the extent of this damage affected how the assets were valued and how much insurance the entities would receive. The financial statements contained disclosures about these uncertainties, which are important to understanding the financial statements. So, we drew attention to the disclosures.

3.30 If an entity has decided to cease operations, it will affect the way that financial statements are prepared and how assets are valued. The financial statements will need to contain disclosures about this. These disclosures are also important to understanding the financial statements. We normally draw attention to disclosures about ceasing to operate.

4

Rates issues

4.1 In this Part, we give an update on how local authorities have responded to a High Court judgment about how Kaipara District Council assessed and collected rates for Northland Regional Council.

4.2 In 2016, in an interim judgment, the High Court found some of the rates-collection arrangements between Northland Regional Council and Kaipara District Council to be unlawful, but it did not consider what remedy should be given. [10]

4.3 In August 2017, the High Court's final judgment addressed the issue of remedy. The High Court set aside Northland Regional Council rates and penalties imposed in the Kaipara district for five rating years (from 2011/12 to 2015/16).[11]

4.4 The High Court found that a regional council:

- cannot lawfully delegate to territorial authorities in its region the power to assess its rates, recover unpaid rates, or add or remit penalties; and
- has to specify calendar dates for payment of its rates in its rating resolution, rather than leave this for territorial authorities to do.

4.5 Although the High Court set aside the rates and penalties, it did not direct Northland Regional Council to refund the rates or penalties.

4.6 Northland Regional Council appealed the High Court judgment. The Court of Appeal heard the appeal in November 2017. The Court of Appeal had not given its decision at the time of writing.

4.7 Although the matter is still before the courts, we look at how local authorities have responded to the issues raised in the judgment. We also report on some rating matters we considered during the 2016/17 audits.

The High Court judgment's effect on local authorities

4.8 The High Court's finding that a regional council cannot delegate certain tasks to territorial authorities was not consistent with some established arrangements between regional councils and territorial authorities.

4.9 The High Court's finding that a local authority must specify a calendar date for payment of rates could have a wider effect in the sector. Local authorities that charge water rates on the basis of the amount of water used usually specify payment due dates on invoices, rather than calendar dates.

10 *Mangawhai Ratepayers' & Residents' Association Inc. v Northland Regional Council and Kaipara District Council* [2016] NZHC 2192 .

11 *Mangawhai Ratepayers' & Residents' Association Inc. v Northland Regional Council and Kaipara District Council* [2017] NZHC 1972.

4.10 In April 2017, we reported to Parliament about how local authorities had responded to the interim High Court judgment, including what they disclosed in their 2015/16 annual reports.[12]

4.11 Because the High Court made its final judgment before local authorities finalised their 2016/17 annual reports, we asked our auditors to look at how local authorities responded to the final judgment and any related annual report disclosures.

Northland Regional Council's response

4.12 Northland Regional Council disclosed information about the final High Court judgment in a note to its 2016/17 financial statements, including the following:[13]

- The High Court set aside the Council's rates and penalties for 2011/12 to 2015/16 (inclusive) for the Kaipara district, but the High Court did not order any refunds of rates.
- The Council could not take enforcement action for uncollected rates from the Kaipara district for 2011/12 to 2015/16. The Council had made appropriate provision for this in the financial statements.
- The Council had a contingent liability in relation to rates collected from the Kaipara district for 2011/12 to 2015/16. The relevant amount of rates collected was $16.3 million.
- No challenge had been made to the rates in the Far North and Whangarei districts.
- The Council was appealing the final judgment, so it cannot make a final assessment until the Court of Appeal gives its decision.

4.13 In our view, the disclosures were adequate and we did not need to draw attention to the matter in our audit report.

Other regional council responses

4.14 In 2016, after the interim judgment was given, we found that four regional councils used territorial authorities to collect their rates. We suggested that those regional councils should consider whether the High Court judgment would affect them and, if so, disclose that they were considering the implications in their 2015/16 financial statements. Three of the regional councils did this, but one regional council had already adopted its annual report before it had considered the implications of the High Court judgment.

4.15 Since then, the four regional councils have considered their rating-collection arrangements and are paying attention to developments with the Northland Regional Council case.

12 Office of the Auditor-General (2017), *Local government: Results of the 2015/16 audits*.

13 Northland Regional Council (2017), *Annual Report 2016/17*, page 139.

4.16 None of the four regional councils have received challenges to their rating-collection arrangements, but they have all reviewed them. Three of the four have made some adjustments to those arrangements. These include:

- making it clear that the territorial authorities are doing things on behalf of the regional council, not in their own right;
- the regional council reviewing and authorising any additional regional council penalties imposed by the territorial authorities on ratepayers;
- including the regional council logo on any arrears letters issued by territorial authorities that apply to penalties on regional council rates; and
- the regional council setting payment dates for its rates in its rating resolution.

4.17 The fourth regional council has not identified any issues with its current arrangements, but, along with other regional councils, is working with government and sector agencies to prompt a change to rating legislation if needed.

4.18 Any need for change will become clearer when the Court of Appeal gives its decision. We support local authorities' efforts to get clarity in rating legislation and practices.

The issue of setting precise dates

4.19 In its interim judgment in 2016, the High Court found that a rates resolution must specify a calendar date for payment of rates. We considered that this could affect other local authorities. During the 2015/16 audits, we were aware of the following:

- Some local authorities did not set calendar dates for payment of water use that is charged by the amount consumed (water-by-meter rates). Instead, payment of these rates is on receipt of an invoice or by the 20th of the month following the invoice.
- Some rating assessments did not include these water-by-meter rates, because it is not possible to state at the start of the year how much the total amount of the water rates will be, which is what the rating legislation requires.

Update on setting precise dates

4.20 For the 2016/17 audits, we asked our auditors of territorial authorities to update us on any changes made to setting calendar dates for water-by-meter rates.

4.21 We estimate that, of the 67 territorial authorities:

- 43 set calendar payment dates for water-by-meter rates, and 17 authorities changed their approach after the High Court judgment;
- 10 did not set calendar dates for payment of water-by-meter rates; and
- 14 did not set water-by-meter rates.

4.22 Therefore, most territorial authorities now specify calendar dates for payment of all rates.

Other rates matters arising from the 2016/17 audits

4.23 After our audits of local authorities in 2012/13, we reported on rating practices and the issues we found.[14] Disappointingly, we are still seeing some of the same issues. Problems we noted during the 2016/17 audits included the following:

- Confusion about terminology – some local authorities are still using incorrect terminology either from previous rating legislation or from mixing old and new concepts, such as "uniform annual charge" or a "targeted uniform annual charge". Under current rating legislation, these would be more correctly described as targeted rates set on a uniform basis.
- Some of the required content for the funding impact statement (a prerequisite for setting rates) is missing.
- Using different terminology in the rates resolution and the funding impact statement to:
  - describe matters and factors for targeted rates; and
  - specify the basis for liability for payment of a uniform annual general charge.
- Using matters to differentiate targeted rates that are not listed in Schedule 2 of the Local Government (Rating) Act 2002, so are not a valid basis on which to differentiate targeted rates.

4.24 The High Court judgments reinforce that rate-setting processes and arrangements require care and precision. Local authorities that could be affected have responded appropriately by reconsidering some established arrangements and practices.

4.25 However, local authorities cannot be complacent when setting rates. Although the current rating legislation has been in place since 2002, it is technical and has some complexities. We still see local authorities having problems with getting it right.

4.26 Regardless of the outcome of the legal proceedings, we continue to encourage local authorities, under the leadership of Local Government New Zealand and the Society of Local Government Managers, to consider the risks arising in their rating-collection arrangements and raise any concerns with the Department of Internal Affairs.[15]

4.27 We also continue to encourage local authorities to get external legal advice to provide assurance about their rate-setting practices.

14 Office of the Auditor-General (2014), *Local government: Results of the 2012/13 audits*.

15 The Department of Internal Affairs is responsible for administering the Local Government (Rating) Act 2002.

Severance payment and remuneration disclosures

5

5.1 In this Part, we report on severance payment and remuneration disclosures by several local authorities that we considered during the 2016/17 audits. We also note some disclosure matters that we considered for council-controlled organisations.

5.2 The Local Government Act 2002 (the Act) and accounting standards require local authorities to disclose information about severance payments and remuneration in their annual reports. The disclosure requirements in the Act are different and more specific than those in the accounting standards. Appendix 3 outlines the requirements of both.

5.3 We are required to audit how entities comply with the disclosure requirements in the Act and the accounting standards.

5.4 Our audits focus mainly on the disclosure requirements, but severance payments can also be an area of legal, financial, and political risk for public entities. Public entities need to ensure that:

- payments are properly authorised; and
- the amount paid is reasonable under the circumstances and a proper use of public money (in other words, that the payment and its components would withstand scrutiny).[16]

5.5 Our audit approach is to review the severance payment documents and processes to confirm that the public entity has met the disclosure requirements. We also check that the:

- decision to settle was soundly based;
- public entity had legal or external advice as appropriate; and
- person(s) agreeing to make the payment had appropriate financial authority.

5.6 We do not make judgements about the merits of a decision to end an employee's employment.

Matters we considered during the 2016/17 audits

5.7 We considered severance payment and remuneration disclosures by all local authorities and council-controlled organisations during the 2016/17 audits. Larger payments and payments to some departing chief executives received the most audit focus. For the local authorities and council-controlled organisations listed below, we set out their severance payment and remuneration disclosures in paragraphs 5.9-5.20 and give our observations and comments in paragraphs 5.23-5.27:

- Auckland Council and council-controlled organisations in the Auckland Council group;

16 For more on confidentiality and other matters concerning severance payments, see our 2012 report *Severance payments: A guide for the public sector.*

- Rotorua Lakes Council;
- Hawke's Bay Regional Council;
- Westland District Council;
- Nelson City Council; and
- Delta Utility Services Limited – a council-controlled organisation of Dunedin City Council.

5.8 We set out Delta Utility Services Limited's disclosure in paragraphs 5.30-5.40, where we discuss confidentiality.

Severance payment disclosures

5.9 Auckland Council's annual report for the year ended 30 June 2017 disclosed the following:

- Twenty-eight severance payments to employees totalling $976,226 (30 June 2016: 17 payments totalling $726,910). The payments ranged from $3,000 to $405,739. The second largest payment was $68,202.[17]
- Nineteen severance payments to employees of Auckland Council's council-controlled organisations totalling $772,557 (30 June 2016: eight payments totalling $229,581). The payments ranged from $2,885 to $275,000. The second and third largest payments were $120,000 and $96,519 respectively.[18]

5.10 Auckland Council also disclosed the $405,739 severance payment as a termination benefit in the key management personnel remuneration section in its annual report.[19]

5.11 Rotorua Lakes Council's 2016/17 annual report disclosed four severance payments of $126,933, $10,000, $7,000, and $4,000. The Council disclosed the largest payment as a severance payment and as a termination benefit in the key management personnel compensation section.[20]

5.12 Hawke's Bay Regional Council's 2016/17 annual report disclosed a severance payment to the departing chief executive of $306,200 and two severance payments to other staff of $9,000 and $8,000.[21] The Council also disclosed the severance payment to the chief executive as a termination benefit in the key management personnel compensation section of the annual report.[22]

17 Auckland Council (2017), *Annual Report 2016/17*, volume 3, page 77.

18 Auckland Council (2017), *Annual Report 2016/17*, volume 3, page 78.

19 Auckland Council (2017), *Annual Report 2016/17*, volume 3, page 76.

20 Rotorua Lakes Council (2017), *Annual Report 2016/17*, pages 146 and 148.

21 Hawke's Bay Regional Council (2017), *Annual Report 2016/17*, page 179.

22 Hawke's Bay Regional Council (2017), *Annual Report 2016/17*, page 144.

5.13 Westland District Council and Nelson City Council's 2016/17 annual reports disclosed severance payments to departing chief executives of $85,007 and $70,245 respectively.[23]

5.14 Westland District Council also disclosed severance payments to two other staff of $104,405 and $41,000. Nelson City Council disclosed severance payments to three other staff of $91,300, $53,662, and $11,067.[24]

Remuneration disclosures

5.15 Westland District Council and Nelson City Council both disclosed that remuneration paid or payable to the departing chief executives in 2016/17 was more than the amount paid in the previous year by $143,505 for Westland District Council and by $62,243 for Nelson City Council.

5.16 Both councils included additional information in their annual reports to help readers understand these differences. Nelson City Council noted that the remuneration amount for the chief executive included contractual entitlements on the termination of their employment.[25] Westland District Council noted that remuneration for management in 2016/17 included accrued annual leave paid out to three leaving staff members.[26]

5.17 One-off payments at the end of an employee's employment can distort the salary band disclosure information required for local authority employees.
We considered the situation where a senior council employee retired as at 30 June 2017. The employee had a large annual leave balance that had built up over several years, which a Council paid out when the employee retired.

5.18 The Council in this case was concerned that including the annual leave payment in the employee's remuneration for the period of the annual report would distort the disclosure of employee salaries, because it would move the employee up into a higher band. We agreed that it was appropriate to exclude the leave payment as part of the employee's "total annual remuneration" for the purpose of the salary band disclosure. Had the Council included the amount, an explanatory note would have been helpful.

23 Westland District Council (2017), *Annual Report 2016/17*, page 40. Nelson City Council (2017), *Annual Report 2016/17*, page 147.

24 Westland District Council (2017), *Annual Report 2016/17*, page 40. Nelson City Council (2017), *Annual Report 2016/17*, page 147.

25 Nelson City Council (2017), *Annual Report 2016/17*, page 145.

26 Westland District Council (2017), *Annual Report 2016/17*, page 70.

5.19 Hawke's Bay Regional Council's 2016/17 annual report discloses five separate amounts paid to four chief executives in the period at a total cost to the Council and a council-controlled organisation of $782,699.[27]

5.20 Hawke's Bay Regional Council's disclosure includes remuneration and other benefits paid to:

- its former chief executive of $646,800, which included his remuneration while seconded to a council-controlled organisation and his severance payment; and
- two interim chief executives and a newly appointed chief executive near the end of 2016/17, amounting to $135,899.

Our audit work

5.21 For the local authorities that made severance payments, we confirmed that the disclosures met the requirements of the Act and accounting standards. This included considering whether components of payments were properly characterised as remuneration or severance payments.

5.22 We also checked councils' records and process. We looked more closely at the bigger payments to ensure that we understood the reasons for them. This included the payment of $405,739 by Auckland Council, the $275,000 payment by a council-controlled organisation in the Auckland Council group, the $126,833 payment by Rotorua Lakes Council, and the $306,200 payment by Hawke's Bay Regional Council.

Observations and comments

5.23 As well as focusing on the large payments, we noted some positive and negative aspects when reviewing severance payments in 2016/17.

Positive aspects

5.24 We were pleased to see that some entities took steps to enhance transparency by making disclosures that went beyond the requirements of the Act and accounting standards or adding information to explain apparent discrepancies. Examples we noted were:

- Some councils disclosed severance payments separately as termination benefits to senior management, and some councils added additional information to explain higher remuneration amounts for employees who had left during the year.

27 Hawke's Bay Regional Council (2017), *Annual Report 2016/17*, page 179.

- Auckland Council's disclosure of severance payments in the whole council group went beyond the requirements of the Act. The Act requires disclosure of severance payments to all council employees but not employees of council-controlled organisations. Because Auckland Council has several council-controlled organisations, it is useful to show severance payments in the whole group to give the overall picture.
- Auckland Council disclosed the full amounts of the severance payments made, including all components of settlement agreements, such as payments in lieu of notice. This aligns with accounting standards, which consider such payments as termination benefits.
- Hawke's Bay Regional Council made a detailed disclosure of remuneration paid to each of its chief executives and interim chief executives.
- Auckland Council and Nelson City Council put the disclosures required by the Act and by accounting standards next to each other in their financial statements, rather than in separate notes, which helps with understanding the information.

5.25 We welcome local authorities including additional disclosure and explanatory material. It is useful for readers. In the interests of transparency and accountability to the public, we have previously encouraged entities to go beyond the statutory disclosure requirements in some circumstances.[28]

Negative aspects

5.26 We considered some components of severance payments to be unusual or large for public sector entities. Examples were:

- a payment of $15,000 for the purpose of coaching, outplacement, or counselling, for the departing employee to use as they saw fit (as part of an already large severance package);
- giving inappropriate weight to an employee's personal circumstances when determining the parts of a severance payment;
- paying business class airfares for a personal trip for a departing employee and another to visit a family member who was unwell;
- a "back-dated salary payment" of $50,000 as part of a severance package, to address a departing employee's view that they should have been on a higher salary (the back-dated salary payment was incorrectly described as a "contractual entitlement"); and

28 Office of the Auditor-General (2016), *Local government: Results of the 2014/15 audits*.

- two instances of tax-free “hurt and humiliation” payments of $25,000, which is more than the amounts awarded in the Employment Relations Authority or the Employment Court.[29]

5.27 Also, we were concerned to note the following:

- A chief executive was directly involved in negotiating a large severance payment with a departing senior employee. The chief executive had in-house support, but little documentation and no written advice. Our guidance on severance payments notes that it is preferable to use advisers in sensitive and difficult situations, rather than for the employer and employee to negotiate directly.
- Several departing senior executives had significant remuneration expectations for the public sector. The local authorities understandably took this into account when determining the amount of the severance payments. However, in one instance, an employee’s severance package was more than their whole year’s remuneration and more than double what would have been paid for redundancy with notice. We considered this approach to be unusual in the public sector.
- An employee negotiated a “golden parachute” clause in their fixed-term employment contract. The employer was aware that the clause was outside public sector norms but believed that it was unlikely to come into effect because of the short duration of the contract. Although that was a reasonable belief, the clause came into effect. This resulted in a large payment to the departing employee.

Confidentiality

5.28 Confidentiality is standard in many employment settlements. However, public entities need to comply with disclosure requirements in the Act and accounting standards. These requirements override any confidentiality agreement or privacy considerations. One way to avoid any legal risk to the public entity from complying with statutory disclosure requirements is to make any confidentiality obligation “subject to any disclosure required or permitted by law”.

5.29 People like to know how public money is spent, and confidentiality about severance payments does not always sit well with political, media, or public interest. We give an example below.

29 A review of Authority and Court decisions to the end of July 2017 estimates that the average hurt and humiliation award under section 123(1)(c)(i) of the Act is about $9,000. See MinterEllisonRuddWatts (7 September 2017), *Hurt and Humiliation Payments on the Rise*, https://minterellison.co.nz/our-view/hurt-and-humiliation-payments-on-the-rise. For payments awarded by the Employment Relations Authority and Employment Court in the 2016 calendar year, see https://www.employment.govt.nz/about/employment-law/compensation-and-cost-award-tables/compensation-awards-jul-dec-2016/.

Delta Utility Services Limited

5.30 The outgoing chief executive of Delta Utility Services Limited (Delta) and Aurora Energy Limited (Aurora)[30] received a severance payment that attracted some political and public attention. The two companies had operated together but separated from 1 July 2017. As a result of the restructuring, termination benefits were payable to the outgoing chief executive.

5.31 Delta's 2016/17 annual report disclosed information about employees' remuneration and termination benefits. As a company, Delta must comply with the disclosure requirements in accounting standards that apply to "for-profit" entities and the Companies Act 1993.[31]

Disclosures in Delta's 2016/17 annual report

5.32 Delta's 2016/17 annual report listed the number of employees and former employees whose remuneration and benefits exceeded $100,000 for the year ended 30 June 2017. The report noted that the remuneration disclosure included all non-cash benefits and redundancy payments. A redundancy payment is a benefit to an employee, so it is part of the disclosure.

5.33 Delta's 2016/17 annual report disclosed that one employee had received remuneration and benefits between $980,001 and $990,000.[32] The 2015/16 annual report listed the highest-paid employee as earning between $560,001 and $570,000.[33]

5.34 A related party note in the financial statements about key management personnel remuneration disclosed termination benefits paid to the chief executive and one other senior employee of $378,000 after the company was restructured.[34] This is required by accounting standards that apply to "for-profit" entities (see Appendix 3).

Media reporting

5.35 After Delta released its 2016/17 annual report, the media reported a "$1m exit package for Delta boss",[35] an "almost $1m payout", and a "$980,000 golden handshake".[36] This was based on the disclosure in the annual report that one

30 These companies are part of the Dunedin City Council group.

31 The Companies Act 1993 requires a company's annual report to state the number of employees or former employees who, during the accounting period, received remuneration and *any other benefits in their capacity as employees*, of over $100,000 per annum in brackets of $10,000 – section 211(1)(g).

32 Delta Utility Services Limited (2017), *Annual Report 2017*, page 15.

33 Delta Utility Services Limited (2016), *Annual Report 2016*, page 12.

34 Delta Utility Services Limited (2017), *Annual Report 2017*, page 52.

35 *Otago Daily Times* at www.odt.co.nz, "$1m exit package for Delta boss", 22 September 2017.

36 *Radio New Zealand* at www.radionz.co.nz,"$980k CEO payment questioned", 16 October 2017.

employee received remuneration and benefits in 2016/17 of between $980,001 and $990,000. However, because that amount included the chief executive's normal remuneration for that period, the headlines were inaccurate.

5.36 The related party note in the financial statements had more specific information about termination benefits paid to the chief executive and one other senior employee as a result of the restructuring. The related party note disclosed that the total amount of those two payments was $378,000.

5.37 Two Dunedin City councillors wanted more information about the final payment to the outgoing chief executive, including whether it contained a performance-related component. They were concerned when Delta's parent company, Dunedin City Holdings Limited, gave confidentiality as a reason for not giving them this information. The councillors considered that they were entitled to the information, because Dunedin City Council was the ultimate shareholder of the company.[37]

5.38 The media asked us whether we had considered the matter. We confirmed that our appointed auditor had looked at the final payment to the former chief executive as part of our annual audit of Delta. We confirmed that the payment had been properly authorised and was disclosed appropriately according to the accounting standards.

5.39 In this instance, Delta made appropriate disclosures of termination benefits paid to senior employees in its annual report, so some information was available. Although the actual cost of the chief executive's termination benefit was not disclosed, it was included in the disclosure of the amount of $378,000 paid to two employees.

5.40 It is not clear whether Dunedin City Council, as shareholder, was made aware of the detail in the annual report disclosures, which showed that the actual cost to the company of the chief executive's "exit package" was much less than what the media reported.

Final comments

5.41 The requirements for disclosing remuneration and severance payments under the Act and accounting standards are not straightforward. Different rules apply to different kinds of entities. We encourage entities to include additional explanatory material in the interests of transparency and accountability to the public. We continue to encourage entities to take a careful approach to making severance payments to ensure that they are not a waste of public funds and will withstand scrutiny.

37 Delta is a council-controlled organisation, owned wholly by the council holdings company, Dunedin City Holdings Limited, which is in turn owned by Dunedin City Council.

Local Authorities (Members' Interests) Act 1968

6

6.1 Since 2005, we have been seeking a reform and review of the Local Authorities (Members' Interests) Act 1968 (the LAMIA).[38]

6.2 In 2011, the then Minster for Local Government sponsored a review of the LAMIA.[39] The Department of Internal Affairs issued a discussion paper on the LAMIA and requested submissions from affected parties.[40] We provided a submission in February 2012. Nothing came from this review.

6.3 The LAMIA is almost 50 years old and, in our view, a review is well overdue. In many areas, its language is archaic, difficult to follow, and out of date. We have previously expressed our view that difficulties with the LAMIA can have a significant effect on the operation of the local democratic process.

6.4 Under the LAMIA, members cannot:

- enter into contracts with their local authority worth more than $25,000 in a financial year; or
- discuss or vote on matters before their authority in which they have a direct or indirect pecuniary interest, other than an interest in common with the public.

6.5 In 2016, there was a local authority election. We received our usual number of requests for advice on whether people were eligible to stand for election. For the 2016 election, we were not aware of anyone being unable to stand for election because they had a contract with their local authority that exceeded the statutory limit of $25,000 at the time of their election (which does not mean this did not occur, but no instances came to our attention).

6.6 However, after the election, we received a request from a newly elected member of a Council committee to consider his eligibility to stand. He had provided maintenance services for the Council for several years. The annual payment for his maintenance services only marginally exceeded the statutory limit of $25,000.

6.7 Ultimately, we did not have to consider his eligibility because he resigned from the committee. However, there was potential for an unfortunate and unfair outcome as a result of a contract rule in the LAMIA that can be difficult to apply. It does little to encourage or strengthen local democracy.

6.8 It makes little sense that the LAMIA has harsher consequences for people who have not yet been elected than for people who have already been elected. There is no risk of preferential treatment, undue influence, or significant and ongoing conflicts of interest when the person is not a member of the local authority at the time the

38 Office of the Auditor-General (2005), *The Local Authorities (Members' Interests) Act 1968: Issues and options for reform*, Wellington.

39 *Conflict of interests rules to be reviewed* (2011), at beehive.govt.nz.

40 August 2011 Internal Affairs Discussion Document, *Managing Conflicting Interests in Local Government: The Local Authorities (Members' Interests) Act 1968 and Associated Issues.*

contract was entered into. Any concerns about influence when the contract comes up for review or renewal would be able to be managed in the usual way.

6.9 This is one of the issues that could usefully be addressed if the Department of Internal Affairs were to resume the review of the LAMIA. We have previously expressed doubts about whether the contracting rule continues to serve any useful purpose.

6.10 The statutory limit of $25,000 for members to have an interest in a contract with the local authority has not been adjusted for inflation since 1982. Using the Reserve Bank of New Zealand's inflation calculator, that amount is about $90,000 today.[41] This is almost four times the amount that we are currently required to administer.

6.11 This results in unnecessary compliance costs for local authorities having to ask us for approvals for councillors who have insignificant contracts with them, with little benefit for anyone.

6.12 Another difficult aspect of the contracting rule is applying it to subcontracts. The contracting rule applies to subcontracts, and subcontract is defined broadly. In 2017, we dealt with a local authority member who owns an engineering business that supplies goods and services to a wide range of customers that have contracts with the local authority. The member is still subject to the contracting rule even though they may not be able to predict whether their customer will use the goods or services to perform contracts with the local authority.

6.13 As long as the contracting rule remains the law, we are obliged to apply it as it stands.

6.14 Our recent experience suggests that the participation rule is also becoming difficult to operate in practice.

6.15 There is a risk that the LAMIA applies blunt rules and cumbersome approval procedures to matters that require reasonably subtle and immediate judgement.

6.16 Our work in 2016 and 2017 issuing declarations for councillor participation in the Ruataniwha Water Storage Scheme decisions by Hawke's Bay Regional Council is a good example of the complexity of the issues that councils are required to grapple with.[42] In our view, the approval processes and tests that the LAMIA requires us to administer may not be the best way to manage potential conflicts of interest in such situations.

41 See Reserve Bank of New Zealand's inflation calculator at rbnz.govt.nz.

42 Office of the Auditor-General (2016), *Application for an exemption or a declaration by Cr Hewitt.*

6.17 It is also questionable whether a criminal sanction is appropriate. The LAMIA is out of step with the approach other sectors take to managing conflicts of interest in governance bodies under the Crown Entities Act 2004[43] and other similar legislation.

6.18 In other sectors, the legislation may set out declaration requirements and sometimes even rules on participation, but these are left to the entity to manage and administer. Failure to follow the requirements may result in breaches of duty to the organisation or political accountability of some kind but not a criminal sanction.

6.19 It is very unusual to have an independent third party such as the Auditor-General making final decisions on who can and cannot participate and for the criminal law to be used as a penalty.

6.20 We also note that, in some situations, the financial interest regulated by the LAMIA may be only part of the issue and perhaps not even the major risk. The LAMIA regulates only financial interests. It does not regulate more general conflicts of interest, which may arise as a result of other roles that a councillor has or their personal associations.

6.21 We have discussed situations with council staff where there were significant concerns about a councillor's non-financial interests, and a marginal concern about the financial interests regulated by the LAMIA. In those circumstances, it may give a misleading impression if we confirm that the LAMIA does not prevent participation.

6.22 Councillors can sometimes derive false comfort from such advice, and take it to mean that they are free to participate, when in fact their participation may still create general legal risks for the council's decision-making.

6.23 We will continue to raise our concerns about the LAMIA with the Department of Internal Affairs. We appreciate the continuing support from Local Government New Zealand, the Society of Local Government Managers, and local authorities.

43 Sections 62-69.

7 Our work in local government

7.1 In this Part, we discuss discretionary work about local government that we did during and since 2016/17.

7.2 For local government, most of our work involves annual financial audits and audits of long-term plans.

7.3 The Auditor-General also has the power to conduct discretionary work in the form of performance audits (under section 16 of the Public Audit Act 2001) and inquiries into aspects of local government performance (under section 18 of the Public Audit Act 2001).

7.4 Since 2012/13, we have had a multi-year themed work programme. By selecting a theme in advance, we seek to draw attention to important public management and accountability matters and to increase the effectiveness of our work. In 2016/17, the theme was information. In 2017/18, the theme is water management.

Performance audit work

Auckland Council: Working to provide customer-centred services online

7.5 Section 104 of the Local Government (Auckland Council) Act 2009 requires the Auditor-General to review the service performance of Auckland Council and its council-controlled organisations.

7.6 In 2015, Auckland Council began preparing an organisational strategy for 2017-19 to improve the way it delivers its services to Aucklanders. Auckland Council has a programme of work called the Digital Transformation Programme (the Programme).[44] The goal of the Programme is to improve customers' experience using online services and increase Auckland Council's efficiency in providing services.

7.7 As part of our regular reviews of Auckland Council's service performance, we reviewed the Programme and two projects in it – Identity Management and Smart Forms. We assessed how well Auckland Council was managing the Programme.

7.8 The Programme is well aligned to Auckland Council's organisational strategy, and there are indications that Aucklanders and Auckland Council are receiving benefits from the online services programme. However, there were inaccuracies in the reporting to governance groups, and the reporting could be more useful by tracking and reporting on all of the relevant outcomes sought.

7.9 We recommended that Auckland Council improve its governance and accountability arrangements, and its reporting on projects and benefits.

44 At the time we published our report *Auckland Council: Working to provide customer-centred services online*, the programme was called the Customer-centric Transformation Programme.

7.10 Although these findings are specific to Auckland Council, they provide useful insights for all local authorities that are delivering significant programmes of work. In particular, governance groups need accurate and timely information to maintain effective oversight of programmes of work and to make good decisions about how the programmes of work are implemented.[45]

Information theme – understand your critical assets

7.11 In 2016/17, our work theme was information. As part of this, we examined aspects of how well the public sector was managing and making use of information it collected or generated for the effective and efficient delivery of public services.

7.12 Our work included looking at how five local authorities approached identifying and gathering the right information on their assets.[46] We published our report *Getting the right information to effectively manage public assets – Lessons from local authorities* in December 2017.

7.13 The five local authorities understood the importance of having high-quality asset information, including a sound understanding of the condition of those assets, in providing more certainty when planning for the maintenance and replacements of their assets. However, these local authorities need to improve how they identify and prioritise gathering information about their critical assets.

7.14 In our view, all local authorities need to prioritise identifying their critical assets and understanding their age and condition. Having relevant and reliable information about critical assets supports elected councillors in making deliberate and well-informed decisions about how best to manage the assets they govern.

7.15 For many local authorities, funding is becoming more constrained. Having high-quality asset information underpins an effective long-term planning process. It supports local authorities to have meaningful discussions with their communities about choices and decisions affecting how services will be delivered.

Our water management work

7.16 Our work theme for 2017/18 is water management. This work includes several audits that focus on drinking water, stormwater, freshwater, and the marine environment – all of which involve local authorities to varying degrees.

7.17 We published a report in October 2017 that sets out why the Auditor-General has an interest in water management, the themes that we will explore, and an

45 Office of the Auditor-General (2017), *Auckland Council: Working to provide customer-centred services online*.

46 The five local authorities we looked at for the audit were Tauranga City Council, Napier City Council, Tararua District Council, Waimakariri District Council, and Dunedin City Council.

overview of the audits we are carrying out.[47] At the end of our work programme, we will bring together our findings in a report that reflects on what we have heard about water management.

7.18 Our water management work will look at the role of information, innovation and good practice, balancing competing interests and priorities, making investment decisions, how organisations work together and with others, working with iwi, and a consideration of the capability and capacity of public organisations to address water management challenges.

Inquiry requests and correspondence

7.19 We regularly get requests from members of Parliament, councillors, and the public, including ratepayers, to inquire into aspects of local government performance. These requests are generally about how local authorities use resources and include financial, governance, and management matters.

7.20 These inquiry requests and other correspondence can be a useful source of information for us. They make us aware of people's concerns and can help us to plan our work. We consider these requests when preparing our annual work plan and annual financial audits.

7.21 However, we are not a complaints-resolution organisation, and we have limited resources for inquiry work. We are not able to inquire into every local government concern raised with us. Where possible, we encourage people to raise their complaints with the appropriate organisations in the first instance. This includes encouraging councillors who complain to us about their councils to raise their concerns with the chief executive or at the council table.

7.22 In 2016/17, about 40% of inquiry requests were about local government issues. In many instances, we were able to obtain the appropriate information from the organisations concerned without having to do a significant inquiry, or we gave the information to our appointed auditor of the local authority for consideration and to take any appropriate action during the annual financial audit or audit of the long-term plan. For some issues, we carried out a more substantive inquiry.

7.23 The types of local government issues raised with us included the behaviour and decisions of local government staff and elected members, and various aspects of financial management, including funding decisions. We also considered issues with the governance of several local authorities that we are continuing to monitor.

47 Office of the Auditor-General (2017), *Introducing our work programme – Water management*.

Auckland Council's Westgate/Massey North town centre project inquiry

7.24 In 2016/17, we completed an inquiry into Auckland Council's management of a project to develop a new town centre in Massey North. Development of that town centre has taken 16 years to date and is factually and contractually complex. We outline aspects of the history of the project in our report.[48]

7.25 Overall, we found that it was too early to determine whether the vision for the town centre would be achieved and the ultimate cost to the ratepayers to achieve that vision.

7.26 Several people had raised concerns with us about the establishment and management of this new town centre. They questioned whether the public and private costs and benefits of the project had been appropriately shared between Auckland Council and a private developer.

7.27 Although many of the findings of our inquiry were specific to Auckland Council and the project, a couple of findings apply to all local authorities. These relate to the transparency of actions and demonstrating that good decisions have been made:

> *It is important that local authorities strike the right balance between balancing commercial sensitivity, maintaining legal privilege as appropriate and being open with ratepayers and elected representatives to provide transparency about the agreements they enter into and to demonstrate that they are getting value for money. Such openness allows public discussion and debate, and is essential to supporting public sector accountability.*
>
> *However, this exercise has highlighted once again the importance not just of making good decisions but also of being able to show that good decisions have been made. This is especially so in times of change (such as with the amalgamation of multiple local authorities into a super city).*

7.28 Local authorities should be as transparent as possible about their actions and decisions, and the public should both expect and demand this.

Other substantive local government matters we considered

7.29 In this section, we discuss our responses to two people who wrote to us in 2016/17. They raised concerns about their respective local authorities.

48 Office of the Auditor-General (2016), *Inquiry into aspects of Auckland Council's Westgate/Massey North town centre project.*

7.30 The issues that they raised, along with the responses we provided, are useful reminders for all local authorities to think about how they involve their communities in their decision-making processes. We also note some of our observations about queries and requests that we receive on procurement-related decisions and work that we are planning to do for our procurement theme in 2018/19.

Proposed wastewater scheme for Glenorchy – local authority long-term plan decision-making

7.31 A Queenstown resident raised concerns about Queenstown Lakes District Council's consultation document for its 2015-25 long-term plan and our audit report on the consultation document.

7.32 The resident considered that the consultation document did not meet the requirements of the Local Government Act 2002 because it did not include a proposed wastewater scheme for Glenorchy as a significant issue to be consulted on. The consultation document did refer to a new wastewater scheme for Glenorchy, including indicative funding, under a section entitled "Our Core Business". We concluded that the consultation document was fit for purpose.

7.33 Queenstown Lakes District Council told us that it included five significant proposals for community consultation (excluding the proposed Glenorchy wastewater scheme) in the consultation document for its 2015-25 long-term plan. In the context of its significance and engagement policy, it had assessed these proposals as its significant consultation issues given their total value and/or the proportion of ratepayers affected. In considering the consultation issues for the document, Queenstown Lakes District Council also had to weigh up the degree to which the views of the community were already known.

7.34 Queenstown Lakes District Council had been considering options for dealing with wastewater in Glenorchy since 1994 and has budgeted for costs associated with a wastewater scheme for Glenorchy in its long-term plans since 2006. This process included consulting with people in Glenorchy about options.

7.35 We provided the resident with the explanation in the following example, which describes local authority decision-making for long-term planning and the auditor's role in this process. This is a useful reminder for all local authorities to ensure that their communities understand the purpose of long-term planning, how local authorities determine what is to be included in their long-term plan consultation documents, and the role of the auditor. It demonstrates that local authorities need to take their communities through the process when an issue or proposal that may affect them is considered, options analysed, and decisions made.

Our response about local authority decision-making for long-term planning and the auditor's role in the process

Council decision-making is an ongoing process, not one that occurs only every three years in conjunction with the long-term plan. That said, every three years, the long-term plan needs to set out the proposed activities and spending by the council for a 10-year period. It is important to note that a planning document such as a long-term plan is not a binding document and can be amended for significant changes. Annual plans produced in the period of each long-term plan explain any variations from the long-term plan.

The nature of a plan is that things change, but a plan should reflect and bring together existing and proposed activities and decisions for the 10-year period. It should also include the likely costs of those matters based on the best available information at that time. Long-term plans must also reflect the underlying documents and information, such as the council's financial and infrastructure strategies.

Part of the long-term planning process involves council staff compiling information about possible spending on projects in the period of the plan, whether final decisions have been made on those projects or not. Again, this is because the document is a plan and needs to include expenditure that will or might occur.

In 2014, the Local Government Act 2002 (the Act) was amended to streamline the planning and decision-making process and to enhance community engagement. The 2015-25 long-term plans were the first for which local authorities were required to prepare a concise consultation document for engagement with their communities, rather than a full draft of the long-term plan and a summary of the draft plan. This was so councils and their communities could engage on the key consultation issues and was intended to make the consultation process more focused and effective.

In terms of content, the Act is clear that it is for councils to determine the content of their consultation documents, on reasonable grounds, and having regard to their statutory purpose.

The Office's audit mandate also changed. Previously, we were required to determine whether a local authority had complied with the Act in preparing its plan. With the change to consultation documents, our mandate changed to a requirement to report on whether the consultation document is fit for purpose. This is not a matter of determining legal compliance, but a high-level judgement. As previously, we are also required to report on the quality of the underlying information and assumptions. Our appointed auditors make these judgements on behalf of the Auditor-General.

Southland Outdoor Stadium – Invercargill City Council

7.36 In 2016/17, an Invercargill resident asked us to inquire into arrangements that Invercargill City Council made in mid-2015 to take ownership of the Southland Outdoor Stadium (the Stadium).

7.37 In 2014, Invercargill City Council considered options for securing the future of the Stadium. This followed discussions with various parties about how the debts of the Stadium's owner, the Southland Outdoor Stadium Trust, could be paid.

7.38 Invercargill City Council consulted on three options in February 2015 and then decided at its meeting that month to make a donation to the Southland Outdoor Stadium Trust and take ownership of the Stadium on certain conditions.

7.39 The resident raised a particular concern about whether Invercargill City Council knowingly authorised a variation from the conditions in its February 2015 resolution before entering into the arrangement to take ownership of the Stadium.

7.40 We noted differences between the February 2015 consultation document, Invercargill City Council's resolution, and the final arrangements entered into. The differences involved the amount of the debt, how it would be repaid, and the time over which it would be repaid.

7.41 In our view:

- Any change to a council resolution should be transparent because resolutions enable local authorities to take particular actions and to spend money.
- Officials need to think about the right time to present the detail of proposals to others for decisions. There may be instances when officials are dealing with complex issues and want to test approaches before a final decision is made. It can be more effective to reach an agreement in principle and for officials to be delegated the responsibility to negotiate the detail.

Procurement – decisions and consultation

7.42 We receive many queries and complaints about procurement matters. These include procurement matters that local authorities are consulting on in their annual or long-term plans, have consulted on previously, or have chosen not to consult on. Sometimes, these payment or procurement decisions are to support facilities or activities of trusts or other entities in local communities but are outside our audit mandate.

7.43 We often receive queries about decision-making and practices for buying or disposing of local authority assets and facilities. Queries about the choices local authorities make are best directed to the local authorities for a response. It is not our role to question policy decisions. However, we often do further work on the questions or concerns that might give rise to more formal inquiries, within our mandate, and to focus our audits of annual and long-term plans.

7.44 Significant procurement proposals are often included in proposed long-term plans and amendments to long-term plans. Since the adoption of 2015-25 long-term plans, we have audited 14 long-term plan amendments, including six in 2016/17. Of these amendments, four involved procurement matters through the purchase, sale, or transfer of assets. Of these, two involved the sale of pensioner housing and one was the development of land for housing.

7.45 In 2018/19, our work theme will be procurement.

Issues that we continue to monitor

7.46 In 2016/17, we continued to monitor two projects that, during 2015/16, had been the subject of several requests for an inquiry. These were the Whanganui District Council's wastewater treatment plant development and the Ruataniwha Water Storage Scheme development in Hawke's Bay.

7.47 We reported on the issues with these projects in our report *Local government: Results of the 2015/16 audits*. In 2016/17, there were developments with the Ruataniwha Water Storage Scheme that stopped the scheme from progressing further at this point in time. Our expectations of how the Whanganui District Council manages its wastewater treatment plant development remain unchanged.

The 2018-28 long-term plans

7.48 Long-term plans give local authorities the opportunity to present revised levels of service for consultation. This allows the community to consider the services their local authority delivers and how the services are funded. Our role is to provide independent assurance about the content of, and the information and assumptions underlying, the consultation documents and long-term plans adopted by local authorities.

7.49 The analysis set out in Part 1 shows that the trends we identified in previous years remain: local authorities, as a whole, have consistently underspent when investing in their assets. This trend is most concerning in some of the local authorities' core infrastructure assets, such as water supply and flood protection assets. If budgets accurately reflect required spending, the investment that local authorities are making may not be enough to maintain the quality of their assets and the service levels.

7.50 In completing our work on local authority consultation documents and long-term plans, we will focus on the local authorities' asset-related forecasts. We will be particularly interested in why some local authorities have consistently underspent against their capital expenditure budgets.

7.51 We want to understand what they believe the effect of this underspending has had on their assets and what this means (if anything) to forecast capital expenditure included in the 2018-28 long-term plans.

7.52 We expect local authorities to have well-informed conversations with their communities about how to fund any increases in cost to maintain service levels or sustainably maintain the assets. We also expect local authorities to be clear about the consequences if they choose not to fund any increases in cost. Transparently presenting their information will assist elected members in making decisions through the long-term plan process.

7.53 We will report our findings of our audits of the local authority consultation documents and 2018-28 long-term plans later in the year.

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

When local authorities adopted their annual reports

When the annual report was adopted	Number adopted for financial year				
	2012/13	2013/14	2014/15	2015/16	2016/17
Within two months after the end of the financial year	2	1	1	0	0
Between two and three months after the end of the financial year	16	14	16	27	15
Between three and four months after the end of the financial year	54	60	59	49	60
Subtotal: Number meeting statutory deadline	**72**	**75**	**76**	**76**	**75**
Percentage of local authorities meeting statutory deadline	*92%*	*96%*	*97%*	*97%*	*96%*
Between four and five months after the end of the financial year	4	1	0	0	2
More than five months after the end of the financial year	2	0	1	1	1
Not issued as at the date of compilation	0	2	1	1	0
Total	**78**	**78**	**78**	**78**	**78**

When local authorities released their annual reports

Time after adopting annual report	Number released for financial year				
	2012/13	2013/14	2014/15	2015/16	2016/17
0-5 days	29	16	25	28	23
6-10 days	9	8	19	15	19
11-20 days	16	18	8	14	8
21 days to one month	21	30	23	17	22
Subtotal: Number meeting statutory deadline	**75**	**72**	**75**	**74**	**72**
Percentage of local authorities meeting statutory deadline	*96%*	*92%*	*96%*	*95%*	*92%*
Number not meeting the deadline	3	4	1	3	6
Not issued as at the date of compilation	0	2	2	1	0
Total	**78**	**78**	**78**	**78**	**78**

When local authorities released their summary annual reports

Time after adopting annual report	Number released for financial year				
	2012/13	2013/14	2014/15	2015/16	2016/17
0-5 days	15	5	14	16	7
6-10 days	4	5	12	14	15
11-20 days	21	14	8	11	11
21 days to one month	34	47	39	29	32
Subtotal: Number meeting statutory deadline	**74**	**71**	**73**	**70**	**65**
Percentage of local authorities meeting statutory deadline	*95%*	*91%*	*93%*	*90%*	*83%*
One month to 40 days	2	3	1	6	9
41-50 days	0	2	0	1	4
51-60 days	0	0	0	0	0
More than 60 days	2	0	1	0	0
Not issued as at the date of compilation	0	2	3	1	0
Total	**78**	**78**	**78**	**78**	**78**

Appendix 2
Summaries of the non-standard audit reports issued in 2017

Modified audit opinions – Disclaimers of opinion

Kaikōura District Council

Year ended 30 June 2017

The earthquake on 14 November 2016 damaged the Council's assets and affected its delivery and management of services afterwards. As a result, we were unable to form an opinion on the statement of service provision because the Council was unable to report any performance for the reporting period. In addition, our audit of the Council's financial statements was limited because we were unable to confirm impairment losses, asset write-offs, and the carrying value of damaged assets, because the Council could not determine the extent of damage to its property, plant and equipment. This also meant that we were unable to confirm whether the repair expenditure that has been incurred after the earthquake should have been classified as either capital or operating expenditure. We also drew attention to the disclosures in the financial statements that outlined the uncertainties associated with recognising the Council's insurance proceeds.

Titanium Park Joint Venture (Hamilton City Council)

Year ended 30 June 2016

We were unable to form an opinion on the financial statements because we were unable to obtain enough evidence to support the value of development properties, which are the main assets of the joint venture. In addition, we drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of going concern when preparing the financial statements because the joint-venture parties had agreed to bring the joint venture to an end.

Modified audit opinions – Adverse opinions

Canterbury Museum Trust Board

Years ended 30 June 2016 and 30 June 2017

We disagreed with the Trustees not recognising the museum collection assets they own, nor the associated depreciation expense, in the Trust's financial statements, in keeping with the requirements of generally accepted accounting practice.

Modified audit opinions – Qualified opinions

Hurunui District Council
Year ended 30 June 2017
The earthquake that struck the Kaikōura area on 14 November 2016 damaged the Council's assets and affected its delivery and management of services afterwards. As a result, our audit was limited because we were unable to get enough audit evidence to confirm the value of impairment losses, asset write-offs, and the carrying value of damaged assets, because the Council could not determine the extent of damage to its property, plant and equipment. This also meant that we were unable to confirm whether the repair expenditure that has been incurred after the earthquake should have been classified as either capital or operating expenditure. In addition, our audit was limited because we were unable to obtain enough audit evidence to verify some performance measures because the recording of these services was interrupted by the earthquake. We also drew attention to the disclosures in the financial statements that outlined the uncertainties associated with recognising the Council's insurance proceeds.
Christchurch City Council
Year ended 30 June 2017
Our audit on the comparative information was limited because we were unable to get enough appropriate audit evidence on the City Council's valuation of the roading network and stormwater system. This is because the City Council had been unable to quantify the financial impact of unrepaired earthquake damage to the roading network and stormwater system in the year ended 30 June 2016. In addition, our audit of the comparative information was limited because the City Council had treated $54.4 million of costs incurred by the Stronger Christchurch Infrastructure Rebuild Team as capital work in progress for the year ended 30 June 2016, which was not in keeping with the asset capitalisation criteria in the accounting standards.
Carterton District Council
Years ended 30 June 2016 and 30 June 2017
Our audit was limited on the District Council's performance information because we were unable to get enough appropriate audit evidence about the completeness of some complaint and response time information. This was because the District Council's system for recording complaints and response times was not reliable. In addition, we drew attention to disclosures about the uncertainty of the outcome of a proposal to amalgamate the Carterton, Masterton, and South Wairarapa District Councils into a single Wairarapa District Council, which would not be determined until after the date of the annual report for 30 June 2017.
Hawke's Bay Regional Council
Year ended 30 June 2017
Our audit was limited because we were unable to get enough appropriate audit evidence to verify that the expenditure for developing the Ruataniwha Water Storage Scheme is recoverable or to determine the deferred tax balances that should arise from the impairment of the Ruataniwha Water Storage Scheme intangible asset.
Manawatu District Council
Year ended 30 June 2017
Our audit of some comparative information was limited because we were unable to get enough appropriate audit evidence about the completeness of some response time information reported in the statement of service performance. Previously, the Council had been unable to report accurate response time performance because the system for recording response times was not reliable, because of inaccurate or omitted source data. The Council has fixed issues with missing or incomplete data about response times. However, because the comparative information could not be fixed, we could not compare the 2017 performance information with the 2016 performance information.

Vbase Limited (Christchurch City Council)
Year ended 30 June 2017
Our audit was limited because we were unable to obtain enough appropriate audit evidence to support the assumptions made in calculating deferred tax balances. This is because repairs to the town hall are under way, and the assessment of tax treatment of the repair costs will not be made until the work is complete. We also drew attention to disclosures in the financial statements outlining that the future business structure and the operations of the company are being reviewed.
Dunedin City Holdings Limited (Dunedin City Council)
Year ended 30 June 2017
Our audit was limited because we could not determine the value of stadium assets, which should have been recognised in the financial statements. This was because the group had not carried out an assessment of the value of the stadium assets on a basis that is consistent with public benefit entity accounting standards.
The World Buskers' Festival Trust (Christchurch City Council)
Year ended 30 June 2017
Our audit was limited because we could not get enough assurance about door donation revenue because the Trustees had limited controls over that revenue. We also drew attention to disclosures in the financial statements outlining that the Trustees had appropriately used a basis other than that of a going concern when preparing the financial statements. The Trust was due to be dissolved after the 2018 World Buskers' Festival, with all remaining assets to be subsequently transferred to another entity with a similar charitable purpose.
Waipa Community Facilities Trust (Waipa District Council)
Year ended 30 June 2017
Our audit was limited because we could not get enough assurance about the Trust's cash receipts from trading and facilities activities. The Trustees had limited controls over that revenue.
Tararua Aquatic Community Trust (Tararua District Council)
Year ended 30 June 2016
Our audit was limited because we could not get enough assurance about the completeness of pool revenue for the year ended 30 June 2016. The Trustees had limited controls over that revenue.
Otago Museum Trust Board
Year ended 30 June 2017
We disagreed with the Trustees not recognising certain museum collection assets they own, nor the associated depreciation expense, in the Trust's financial statements, in keeping with the requirements of generally accepted accounting practice.

Unmodified opinions with "emphasis of matter" paragraphs

Greater Wellington Regional Council

Year ended 30 June 2017

We drew attention to disclosures in the financial statements outlining the uncertainties related to the effects of the Kaikōura earthquake. These uncertainties include the estimates that have been made to value the insurance proceeds that are expected to be received and the related costs to repair or replace assets, and the estimates that have had to be made to account for the possible impairment of assets and the related tax treatment.

Manawatu-Wanganui Regional Council

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the uncertainties in measuring the fair value of the Council's investment in CentrePort Limited. CentrePort Limited has experienced a significant amount of damage from the Kaikōura earthquake. As a result, there is a high degree of uncertainty about the level and timing of insurance proceeds to be received, the amount and timing of future capital expenditure that will need to be incurred to repair assets, and any current or future changes in demand for CentrePort Limited's operations.

Masterton District Council

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the uncertainty of the outcome of a proposal to amalgamate the Carterton, Masterton, and South Wairarapa District Councils into a single Wairarapa District Council, which would not be determined until after the date of the annual report.

South Wairarapa District Council

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the uncertainty of the outcome of a proposal to amalgamate the Carterton, Masterton, and South Wairarapa District Councils into a single Wairarapa District Council, which would not be determined until after the date of the annual report.

Marlborough District Council

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the uncertainties over the damage done to some of the District Council's assets as a result of the Kaikōura earthquake.

CentrePort Limited Group (Greater Wellington Regional Council)

Year ended 30 June 2017

We drew attention to disclosures in the financial statements outlining the uncertainties related to the effects of the Kaikōura earthquake. These uncertainties include the estimates that have been made to value the insurance proceeds that are expected to be received and the related costs to repair or replace assets, and the estimates that have had to be made to account for the possible impairment of assets and the related tax treatment.

CentrePort Properties Limited Group (Greater Wellington Regional Council)

Year ended 30 June 2017

We drew attention to disclosures in the financial statements outlining the uncertainties related to the effects of the Kaikōura earthquake. These uncertainties include the estimates that have been made to value the insurance proceeds that are expected to be received and the related costs to repair or replace assets, and the estimates that have had to be made to account for the possible impairment of assets and the related tax treatment.

Harbour Quays F1F2 Limited (Greater Wellington Regional Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements outlining the uncertainties related to the effects of the Kaikōura earthquake. These uncertainties include the estimates that have been made to value the insurance proceeds that are expected to be received and the related costs to repair or replace assets and the estimates that have had to be made to account for the possible impairment of the company's building. We also drew attention to disclosures in the financial statements outlining the uncertainties about the company's ability to continue as a going concern because the Board of Directors has not decided whether to replace the building or to wind up the company.
Harbour Quays A1 Limited (Greater Wellington Regional Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements outlining the uncertainties related to the effects of the Kaikōura earthquake. These uncertainties include the estimates that have been made to value the insurance proceeds expected to be received because the company's investment property is likely to be demolished. We also drew attention to disclosures in the financial statements outlining the uncertainties about the company's ability to continue as a going concern because the Board of Directors has not decided whether to replace the building or to cease operations.
MWRC Holdings Limited (Manawatu-Wanganui Regional Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements about the uncertainties in measuring the fair value of the company's investment in CentrePort Limited. CentrePort Limited has experienced a significant amount of damage from the Kaikōura earthquake. As a result, there is a high degree of uncertainty about the level and timing of insurance proceeds to be received, the amount and timing of future capital expenditure that will need to be incurred to repair assets, and any current or future changes in CentrePort Limited's services and operations.
WRC Holdings Limited (Greater Wellington Regional Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements outlining the uncertainties related to the effects of the Kaikōura earthquake. These uncertainties include the estimates that have been made to value the insurance proceeds that are expected to be received and the related costs to repair or replace assets, and the estimates that have had to be made to account for the possible impairment of assets and the related tax treatment.
Port Investments Limited (Greater Wellington Regional Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements outlining the uncertainties related to the effects of the Kaikōura earthquake. These uncertainties include the estimates that have been made to value the insurance proceeds that are expected to be received and the related costs to repair or replace assets, and the estimates that have had to be made to account for the possible impairment of assets and the related tax treatment.
Creative HQ Limited (Wellington City Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements about uncertainties in measuring the fair value of shares in incubator and accelerator companies. The uncertainties were due to the early stage of the investments, the absence of quoted market prices, and the reliance on information supplied by the incubator and accelerator companies.

Innovation Waikato Limited (Hamilton City Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements about uncertainties over the future structure of the company and group, which is dependent on a restructuring decision to be made by Hamilton City Council.
Strada Corporation Limited (Waikato District Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements. The Board had decided to sell all of its operational assets and clear all of its liabilities.
Waikato Quarries Limited (Waikato District Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements because the company has ceased trading subsequent to the sale of its business assets.
NZ Mutual Liability Riskpool
Year ended 30 June 2016
We drew attention to disclosures in the financial statements about the uncertainties associated with the outstanding claims liability and reinsurance receivables of the Scheme and the inherent uncertainties involved in estimating those amounts using actuarial assumptions, including in relation to leaky building claims that are subject to a high degree of uncertainty.
Venture Southland
Year ended 30 June 2017
We drew attention to disclosures in the financial statements about uncertainties over the future operations of Venture Southland. The outcome of a proposal to create a new entity that would incorporate the operations of Venture Southland is not known. In addition, Southland District Council and Gore District Council have provided notice of their intention to end the Heads of Agreement that established Venture Southland.
Wellington Cable Car Limited (Wellington City Council)
Year ended 30 June 2016
We drew attention to disclosures in the financial statements about uncertainties surrounding the cessation of the trolley bus service, including the carrying value of the trolley bus network assets and inventory, and related expenses during the year.
Wellington Cable Car Limited (Wellington City Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements about trolley bus services ceasing from 31 October 2017, and the associated decommissioning of the related network assets, which significantly affects the activities of the company. The company has not made any decision about its future operations.

Partnership Wellington Trust (Wellington City Council)

Year ended 30 June 2016

We drew attention to disclosures in the financial statements about the Board of Directors not complying with the law because it failed to issue a statement of intent for the period beginning 1 July 2015. We also drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements because the assets and liabilities, employees, and undertakings of the Trust were transferred to Wellington Regional Economic Development Agency Limited. The Board of Trustees intends to wind up the Trust by 30 June 2017.

Wanganui Joint Venture Airport (Whanganui District Council)

Year ended 30 June 2014

We drew attention to disclosures in the financial statements about the Airport not complying with the law because it did not complete its annual report within three months of the end of the financial year.

Tasman Farms Limited (New Plymouth District Council)

Year ended 30 June 2016

We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern basis when preparing the financial statements because the Board of Directors have resolved to cease trading.

Tasman Farms Limited (New Plymouth District Council)

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the Board appropriately using a basis other than that of a going concern when preparing the financial statements because New Plymouth District Council is considering options for the company, including plans to cease its operations. We also drew attention to disclosures in the financial statements about the Board appropriately not reporting performance information because of plans to wind up the company.

New Plymouth Airport Authority (New Plymouth District Council)

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the joint venture appropriately using a basis other than that of a going concern when preparing the financial statements. The Airport Joint Venture arrangement with the Crown was terminated on 1 July 2017 when New Plymouth District Council purchased the Crown's share in the joint venture.

Canterbury Economic Development Company Limited

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements. The shareholders have determined that the company no longer has a purpose, and it is being removed from the companies register. We also drew attention to disclosures in the financial statements about the Board not complying with the law because it failed to prepare performance information, because the company had ceased operations in 2017 and did not have any performance to report.

Christchurch Agency for Energy (Christchurch City Council)

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the Trustees appropriately using a basis other than that of a going concern when preparing the performance report because the Trust intends to cease operations in the next 12 months, with any remaining assets transferred at the direction of the settlor of the Trust.

Westport Harbour Limited (Buller District Council)

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the Board appropriately using a basis other than that of a going concern when preparing the financial statements because Buller District Council had instructed the company to transfer its operations to another entity in the group and to cease operations within 12 months.

Partnership Properties Limited (Hutt City Council)

Years ended 30 June 2015 and 30 June 2016

We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements because the company has fulfilled its purpose and is in the process of being removed from the companies register. We also drew attention to disclosures in the financial statements about the Board of Directors not complying with the law because it failed to issue a statement of intent by 30 June 2015 for the period beginning 1 July 2015. It failed to prepare performance information for the year ended 30 June 2016 because the company only performed as an agent for the purchase of property on behalf of Urban Plus Limited. It also failed to complete the annual report within three months after the end of the 2015 and 2016 financial years.

Gold Property Investment Limited (Hutt City Council)

Years ended 30 June 2015 and 30 June 2016

We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements because the company has fulfilled its purpose and is in the process of being removed from the companies register. We also drew attention to disclosures in the financial statements about the Board of Directors not complying with the law because it failed to issue a statement of intent by 30 June 2015 for the period beginning 1 July 2015. It failed to prepare performance information for the year ended 30 June 2016 because the company only performed as an agent for the purchase of property on behalf of Hutt City Council. It also failed to complete the annual report within three months after the end of the 2015 and 2016 financial years.

Hutt Property Investments Limited (Hutt City Council)

Years ended 30 June 2015 and 30 June 2016

We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements because the company has fulfilled its purpose and is in the process of being removed from the companies register. We also drew attention to disclosures in the financial statements about the Board of Directors not complying with the law because it failed to issue a statement of intent by 30 June 2015 for the period beginning 1 July 2015. It failed to prepare performance information for the year ended 30 June 2016 because the company only performed as an agent for the purchase of property on behalf of Hutt City Council. It also failed to complete the annual report within three months after the end of the 2015 and 2016 financial years.

Two Guys Properties Limited (Hutt City Council)
Years ended 30 June 2014, 30 June 2015, and 30 June 2016
We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements because the company has fulfilled its purpose and is in the process of being removed from the companies register. We also drew attention to disclosures in the financial statements about the Board of Directors not complying with the law because it failed to issue a statement of intent for the periods beginning 1 July 2014 and 1 July 2015. It failed to prepare performance information for the three years ended 30 June 2014 to 30 June 2016 because the company only performed as an agent for the purchase of property on behalf of Urban Plus Limited. It also failed to complete the annual report within three months after the end of the financial years.
Nelson Regional Economic Development Agency (Nelson City Council)
Year ended 30 June 2016
We drew attention to disclosures in the financial statements about the Board appropriately using a basis other than that of a going concern when preparing the financial statements. The Nelson City Council has resolved to disestablish the Trust and transfer its operations, assets, and liabilities to Nelson Regional Development Limited from 1 July 2016.
World Masters Games 2017 Limited (Auckland Council)
Year ended 30 June 2017
We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements because the Board has resolved to cease operations, subject to the written approval of not less than 75% of the members of the company.
177 High Street Limited (Hutt City Council)
Year ended 30 June 2016
We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements because the company has fulfilled its purpose and is in the process of being removed from the companies register. We also drew attention to disclosures in the financial statements about the Board of Directors not complying with the law because it failed to prepare performance information. This is because the company performed as an agent for the purchase of property on behalf of the Hutt City Council. It also failed to complete the annual report within three months after the end of the financial year.
North Shore Heritage Trust (Auckland Council)
Year ended 30 June 2015
We drew attention to disclosures in the financial statements about the Trustees appropriately using a basis other than that of a going concern when preparing the financial statements. The Trustees have resolved to wind up the Trust when its funds run out.
Vision Manawatu (Palmerston North City Council and Manawatu District Council)
Period ended 30 November 2016
We drew attention to disclosures in the financial statements about the Trustees appropriately using a basis other than that of a going concern when they prepared the performance report. The Trust ceased operations during September 2016.

South Canterbury Rural Fire District Committee

Year ended 30 June 2016

We drew attention to disclosures in the financial statements about the Committee appropriately using a basis other than that of a going concern when preparing the financial statements. The Government has decided to establish a new national service that will take over the Committee's operations, assets, and liabilities.

Marlborough Kaikōura Rural Fire Authority

Year ended 30 June 2016

We drew attention to disclosures in the financial statements about the Committee appropriately using a basis other than that of a going concern when preparing the financial statements because the Government has decided to establish a new national fire service that will take over the Authority's operations, assets, and liabilities.

Otago Rural Fire Authority

Year ended 30 June 2017

We drew attention to disclosures in the financial statements about the Board of Directors appropriately using a basis other than that of a going concern when preparing the financial statements. The Authority transferred its functions, operations, and response assets to Fire and Emergency New Zealand, in keeping with newly enacted legislation.

Len Lye Centre Trust (New Plymouth District Council)

Year ended 31 December 2016

We drew attention to disclosures in the financial statements about the Trustees appropriately using a basis other than that of a going concern when preparing the financial statements because the Trustees have resolved to wind up the Trust.

Christchurch Stadium Trust

Year ended 31 December 2016

We drew attention to disclosures in the financial statements about the Trustees appropriately using a basis other than that of a going concern when preparing the financial statements because the Trust has an obligation to decommission the stadium and wind up once Christchurch has a new permanent stadium. We also drew attention to the Trust's expected financial difficulties because the Trust would not be able to meet its loan and decommissioning obligations without support from external parties.

Appendix 3
Severance payment disclosure requirements under the Local Government Act 2002 and accounting standards

A local authority must disclose in its annual report the amount of a severance payment to an employee in return for the employee's agreement to end their employment. The local authority must disclose the number of severance payments and the amount of each payment, but does not need to identify the employees who received them.[49] Where the payment is made to the chief executive, it must be disclosed separately.

The Local Government Act 2002 defines a "severance payment" as—

> *any consideration that a local authority has agreed to provide to an* ***employee in respect of that employee's agreement to the termination of his or her employment****, being consideration, whether of a monetary nature of otherwise,* ***additional*** *to any entitlement of that employee to—*
>
> *(a) any final payment of salary; or*
> *(b) any holiday pay; or*
> *(c) any superannuation contributions.*

The disclosure requirement is intended to provide transparency about the costs to local authorities of severance payments made to staff. The disclosure requirement applies to payments made under a negotiated agreement with the employee to end their employment that are additional to any existing legal entitlement to payments of final salary, holiday pay, or superannuation contributions. Those legal entitlement payments are not additional costs arising from the negotiated agreement, but must be made regardless of how the employment ends. In contrast, the additional payments are usually set out in a settlement agreement negotiated by the local authority with the departing employee.

49 Local Government Act 2002, Schedule 10, clause 33.

Remuneration disclosures for local authority employees

Local authorities are also required to disclose information about remuneration to councillors and staff in their annual reports.

For employees, local authorities are required to disclose in their annual reports:[50]

- the chief executive's remuneration paid or payable during the period covered by the annual report;
- information about the number of employees as at the last day of the financial year and their "total annual remuneration",[51] including the number receiving remuneration of:
  - less than $60,000; and
  - more than $60,000, in bands of $20,000; and
- the same information for the previous financial year for comparison.

Accounting standards for related party disclosures

Accounting standards require similar but slightly different information to be disclosed and only for senior employees.

Accounting standards require local authorities to disclose information about remuneration and benefits paid to related parties.[52] Related parties include members of the governing body and senior management (referred to in the standards as "key management personnel"), as well as their close family members. The disclosures are made in notes to the financial statements.

The requirement to disclose remuneration and benefits includes "termination benefits". These are payments to employees at the end of their employment, arising from the entity's decision to terminate employment before the retirement date or an employee's decision to accept voluntary redundancy.[53] This is broader than the definition of "severance payment" in the Act.

The aggregate amount of remuneration and other benefits paid to each category of key management personnel must be disclosed. The standard does not require public benefit entities to disclose termination benefits separately.

50 Local Government Act 2002, Schedule 10, clauses 32 and 32A.

51 Total annual remuneration includes the value of any non-financial benefit that was paid or payable during the financial year – Local Government Act 2002, Schedule 10, clause 32A(4).

52 The standard applying to local authorities is Public Benefit Entity International Public Sector Accounting Standard 20 *Related Party Disclosures* (PBE IPSAS 20), issued by the New Zealand Accounting Standards Board of the External Reporting Board, https://www.xrb.govt.nz/accounting-standards/public-sector/pbe-ipsas-20/.

53 The accounting standard that sets out how entities should account for termination payments and other employee benefits is Public Benefit Entity International Public Sector Accounting Standard 25 *Employee Benefits* (PBE IPSAS 25), issued by the New Zealand Accounting Standards Board of the External Reporting Board, https://www.xrb.govt.nz/accounting-standards/public-sector/pbe-ipsas-25/.

For-profit entities must disclose termination benefits separately

Entities that operate for profit are required to make slightly different disclosures.

The accounting standards applying to "for-profit" entities requires entities that are publicly accountable or large[54] to disclose termination benefits separately from remuneration and other benefits paid to key management personnel.[55] This requirement is more transparent than the requirement for public benefit entities.

In practice, some public benefit entities also disclose termination benefits received by key management personnel employees separately from other remuneration.

54 Known as Tier 1 entities in the External Reporting Board's *New Zealand Accounting Standards Framework* 2012, which defines both "publicly accountable" and "large".

55 The related party disclosure standard for profit entities is New Zealand Equivalent to International Accounting Standard 24 *Related Party Disclosures* (NZ IAS 24).

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Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

Email: reports@oag.govt.nz
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