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Parliamentary paper

Local  
government:  
Results of the  
2007/08 audits

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# Local government: Results of the 2007/08 audits

Presented to the House of  
Representatives under section 20 of  
the Public Audit Act 2001

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Hon Dr Lockwood Smith MP  
Speaker  
House of Representatives  
WELLINGTON

Mr Speaker

I am pleased to forward this report to you for presentation to the House of Representatives under section 20 of the Public Audit Act 2001.

Yours faithfully

A handwritten signature in black ink, appearing to be 'K B Brady', with a large loop at the end.

K B Brady  
Controller and Auditor-General

Wellington

12 June 2009

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# Introduction

This is our report on the 2007/08 audits of the local government sector. Most of these audits were of regional and territorial local authorities and their subsidiary entities.

This was the fourth year that all regional and territorial local authorities reported under the full requirements of the Local Government Act 2002 (the Act). It was the second year after the sector's adoption of the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Under the Act, the Long-Term Council Community Plan (LTCCP) is now the basis of a local authority's annual financial and performance accountability to its community, and 2007/08 was the second year that each local authority reported against its audited 2006-16 LTCCP.

## Purposes of this report

The purposes of this report are to:

- tell Parliament and the local government sector about matters arising from carrying out our role as auditor of the sector;
- describe some of the inquiries we undertook in the sector during the period;
- highlight some matters and make some observations on various sectors such as ports and licensing trusts; and
- summarise the findings from our performance audits and other work carried out during the year that affect local government.

## Review of 2007/08

The 2007/08 year was the first year of the new triennium for local authorities following the October 2007 local body elections. By the end of 2008, the work associated with preparing the 2009-19 LTCCPs was dominating the sector. This was needed to enable local authorities to consult on and adopt their LTCCP by 30 June 2009. In these circumstances, it was important that local authorities had "cleared the decks" of their 2007/08 accountability obligations so they could focus on planning.

We are pleased to note that local authorities achieved this, and by Christmas 2008, all local authorities had adopted their audited annual reports. This included those outstanding annual reports from years before 2008 which had been a feature of our report on 2006/07.

Annual reports for 2007/08 again required local authorities and our audit teams to deal with reporting on a basis consistent with NZ IFRS. Timely reporting on an entity's financial results must be "a given" and again it was pleasing that NZ IFRS

did not unduly affect reporting. However, we do not underestimate the effort needed to produce all the information required to comply with NZ IFRS. Unlike previous years, this report does not discuss NZ IFRS or its effect. A separate report to Parliament will deal with matters associated with NZ IFRS.

In this report we continue our practice of analysing the timeliness of local authority reporting. The adoption of the annual report within the statutory time frame is one aspect of accountability, but it is equally important for understandable information to be in the hands of the local community to whom a local authority is accountable. Although there has been an improvement in the timeliness of adopting annual reports, regrettably the sector has been less successful in the timely release of audited summaries of their financial statements to their communities.

We continue our annual review of how local authorities report on the effects of their activities on economic, social, cultural and environmental well-being of their communities, and we also consider the ongoing matter of leaky homes, with a focus on the those local authorities primarily affected by this matter.

## Beyond 2007/08

The local body elections were held in October 2007, ushering in new councils across the country. A number of local authorities immediately sought to make decisions that they considered were aligned with the mandate given them by their communities through the elections. A number of these decisions were referred to us for inquiry and we chose to consider three high-profile decisions. We summarise the outcome of these inquiries in this report. Newly elected councils will inevitably face these situations again.

In 2008 we issued our good practice guide *Procurement guidance for public entities*. We are putting a greater focus on the public sector approach to procurement, including in the local government sector. Increasingly we will look to see how local authorities adopt and use the procurement principles set out in the guidance, and how they assure themselves that their procurement arrangements are effective and efficient. An overview of these principles is included in this report.

The financial year 2009/10 will be the first year in which annual reports are prepared on the basis of the new 2009-19 LTCCPs. The quality of the performance information included in annual reports is as important as the financial information. Accountability is only served when both elements of reporting are adequate. Part 11 of this report discusses the importance of performance information and notes our change of focus for the 2009/10 annual audit.

We complete this report by noting other guidance and performance audits relevant to the sector in the areas of regulation of liquor licensing and fees and charges.

We recommend this report to the local government sector for its consideration.

## Conclusion

The local government sector has come through the 2007/08 financial year in reasonably good shape to face the challenges of the 2009-19 LTCCPs. However, as the sector moves forward, it is always useful for it to cast an eye back on what has happened. This report summarises the key issues that arose in 2007/08, comments on what has been achieved, and notes some issues for the sector to consider from here on.



## Part 1

# Timeliness of annual reporting

- 1.1 The annual reports of local authorities provide information that helps communities to assess the performance of their local authorities. For this process to be effective, the information needs to be comprehensive and timely.
- 1.2 Each year, we examine the timeliness of annual reporting by local authorities.
- 1.3 Under the Local Government Act 2002 (the Act), each local authority is required to:
- complete and adopt its annual report, containing audited financial statements, within four months of the end of the financial year;
  - make its annual report publicly available within one month of adopting it; and
  - make an audited summary of the annual report publicly available within one month of adopting the annual report.<sup>1</sup>
- 1.4 The local authority decides when the audited annual reports and summaries will be prepared and published, within the requirements of the Act.

### Summary

- 1.5 The timeliness of annual reporting by local authorities was significantly better for 2007/08 than it was for the year before. The timeliness of annual reporting for 2006/07 had been affected by the additional work required for the transition to reporting under the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). However, results this year show that many local authorities still need to better plan how they will complete, adopt, and release their annual report within the statutory deadlines.
- 1.6 It is important that local authorities recognise that accountability is not achieved until the audited information is made available to ratepayers in a user-friendly form (the annual report summary). Some local authorities need to give this matter greater attention to ensure that their reporting not only allows for prompt audit clearance but also informs their communities without delay.
- 1.7 We will continue to monitor the performance of local authorities in meeting these important statutory deadlines.

### Adoption of annual reports

- 1.8 Figure 1 shows the dates when the audits of local authorities were completed. It shows that, for 2007/08, 77 local authorities (90%) adopted their annual report by the statutory deadline of 31 October 2008.

<sup>1</sup> The actual timing required of any local authority is determined by when it completes and adopts its annual report. In 2007/08, the last possible date for completing and adopting the annual report was 31 October 2008, and the last possible date for making the annual report and the summary of the annual report publicly available was 30 November 2008.

**Figure 1**  
When local authority audits were completed, for 2007/08 and the previous year

Period in which the audit was completed	Number completed during this period, 2007/08	Number completed during this period, 2006/07
1 July to 31 August	2	3
1 to 30 September	14	18
1 to 31 October	61	48
<b>Subtotal: Number meeting statutory deadline</b>	<b>77</b>	<b>69</b>
1 to 30 November	6	5
After 30 November	2	4
Not completed by 31 March of the following year	0	7
<b>Total</b>	<b>85</b>	<b>85</b>

- 1.9 As at 30 November 2008, there were only two outstanding annual reports for 2007/08, and those audits were completed within the first two weeks of December. In comparison, for the 2006/07 year, as at 30 November 2007 there were 11 local authorities whose audits were not completed. Four of these were completed by the end of December 2007 but seven local authorities<sup>2</sup> still had annual reports outstanding as at 31 March 2008 (five months after the last possible date for completing and adopting an annual report). For the 2007/08 year, three<sup>3</sup> of those seven local authorities again failed to complete their annual reporting within the statutory time frame of 31 October 2008.
- 1.10 While there has been some improvement since 2006/07 – when implementing NZ IFRS was clearly a significant contributing factor – we remain concerned about the lack of commitment to timely completion and adoption of annual reports, particularly by those local authorities that repeatedly fail to achieve the statutory deadlines. Without timely reporting, it is very difficult for communities to assess the performance of their local authorities.

2 The outstanding annual reports as at 31 March 2008 for the year ended 30 June 2007 were for Ashburton District Council, Buller District Council, Hurunui District Council, Invercargill City Council, Palmerston North City Council, Selwyn District Council, and Westland District Council.

3 The three were Invercargill City Council, Selwyn District Council, and Westland District Council. In the case of Invercargill City Council, the delay was closely linked to resolving issues from previous years. This time, Westland District Council was less than six weeks late. For Selwyn District Council, illness in our audit team contributed to the delay.

## Public release of annual reports

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

### Figure 2

When local authorities released their annual report, for 2007/08 and the previous year

Number of days after adopting annual report	Number released 2007/08	Number released 2006/07
0-5 days	23	20
6-10 days	8	12
11-20 days	18	10
21 days to one month	34	33
<b>Subtotal: Number meeting statutory deadline</b>	<b>83</b>	<b>75</b>
One month to 40 days	1	2
41-50 days	0	1
57 days	1	0
Not released by 31 March of the following year	0	7
<b>Total</b>	<b>85</b>	<b>85</b>

- 1.12 Figure 2 shows an improvement in the number of local authorities meeting the statutory deadline. However, there was very little change in the number of local authorities publishing their annual report within 10 days of its adoption. Most local authorities make their annual report available to the public on their website. In our view, if the annual report is published on a website, local authorities should be able to do this within a few days of adopting their report.

## Public release of summary annual reports

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

- 1.14 The performance of local authorities in releasing summaries of annual reports within the statutory deadline has improved slightly, as shown in Figure 3.

**Figure 3**  
When local authorities released their audited summary of annual report, for 2007/08 and the previous year

Number of days after adopting annual report	Number released 2007/08	Number released 2006/07
0-5 days	10	6
6-10 days	2	5
11-20 days	13	12
21 days to one month	50	46
<b>Subtotal: Number meeting statutory deadline</b>	<b>75</b>	<b>69</b>
One month to 40 days	3	3
41-50 days	1	3
51-60 days	4	1
61-84 days	1	1
85-100 days	1	0
119 days	0	1
Not released by 31 March of the following year	0	7
<b>Total</b>	<b>85</b>	<b>85</b>

- 1.15 Despite the general improvement in the timeliness of releasing annual reports, there are still some local authorities that consistently do not comply with the requirement to make a summary report available within one month of adopting their annual report. As we noted in our report last year, it is often the same local authorities that are failing to comply. We were particularly disappointed to note that, of the 10 local authorities that failed to meet the statutory deadline, two had also failed to meet it in 2006/07.<sup>4</sup> This suggests a lack of commitment to timely reporting to their community by the local authorities concerned.

<sup>4</sup> Far North District Council did not publish its annual report summary within the statutory deadline in either of the past two years. Whangarei District Council has not achieved this requirement for the past three years. We note that the performance of Far North District Council has declined in 2007/08 by 13 days, with the summary published 52 days after adopting the annual report. Although the performance of Whangarei District Council was still outside the statutory deadline, it has shown some improvement – from 47 days after adopting the annual report in 2006/07 to 35 days in 2007/08.

- 1.16 Local authorities need planning and time to summarise an annual report and have the summary published. However, as with publishing the annual report, it is a known obligation. We emphasise the need for local authorities to project manage the production, audit, and publication of their annual report and their annual report summary.
- 1.17 We were pleased to see a steady number of more efficient local authorities publishing their annual report and summary simultaneously, or near simultaneously, because of sound planning. We encourage this approach within all local authorities.

## Invercargill City Council

### Audit opinions

- 1.18 Because of issues involved in having their audits completed, Invercargill City Council (the Council) and its subsidiary companies have consistently been unable to meet statutory requirements for the timeliness of annual reports for the past few years. We drew attention to this in our reports on the results of the audits of local authorities for the 2005/06 and 2006/07 years.
- 1.19 The audit opinions for the Council and its subsidiary companies were issued well after the statutory deadline for the financial years ended 30 June 2005 and 2006 (32 and 20 months respectively). The audit opinions for the years ended 30 June 2007 and 2008 were issued in November 2008, so the 2007 opinion was about 13 months late. However, we are pleased to note that the audits are now up to date, and all outstanding audit opinions have been issued.
- 1.20 The audit opinions for the Council for the 2006/07 and 2007/08 financial years were qualified as a result of issues with the Council's works company, Bond Contracts Limited.<sup>5</sup> The qualifications were for limitations of audit scope relating to comparative and brought forward information included in the financial statements in 2007, and consequently in 2008. These qualifications are expected to continue in the audit opinion on the 30 June 2009 financial statements.

### Improved planning and reporting

- 1.21 We have previously been concerned about the quality of the Council's planning as well as its timeliness in reporting. We did not consider that the Council's 2006-16 Long-Term Council Community Plan (LTCCP) was "fit for purpose". The combination of a lack of credible plan and the difficulty in finalising the Council's annual reports meant that the Invercargill community lacked information for holding its elected members to account.

<sup>5</sup> See the Appendix.

- 1.22 We are pleased to note that the Council's 2009-19 draft LTCCP was a significant improvement on the 2006-16 version, and received an unqualified audit opinion.
- 1.23 The Council is now up to date with its planning and reporting. We congratulate councillors and management on this improvement, which will greatly enhance the Council's accountability to the Invercargill community.

## Part 2

# Reporting on activities in the annual report

- 2.1 In this Part, we review how local authorities have met requirements in the Local Government Act 2002 (the Act) to include, in their annual reports, certain information in relation to groups of local authority activities. These reporting requirements are some of those in clause 15 of Schedule 10 of the Act.
- 2.2 These reporting requirements are integral to the effective operation of the performance management framework of every local authority.

### Summary

- 2.3 This is the fifth year we have monitored and reported to Parliament on how local authorities are approaching aspects of these reporting requirements. Each year that we have been monitoring and reporting we have observed a range of disclosures in annual reports, from information being clearly available to no relevant disclosures being made at all.
- 2.4 Although we have observed some improvement during this time, including some marginal improvement in 2007/08 relative to the previous year, reporting by local authorities in these areas is still below the standard we expect.
- 2.5 In 2007/08 we focused on three areas. These areas, and our overall findings in relation to each, are as follows:
- Measuring progress towards achieving community outcomes – we generally found more reporting of measurement in 2007/08, as a number of local authorities had finalised the three-yearly report required by section 92 of the Act in time to disclose information about it in the annual report. We generally believe that local authorities should seek to finalise measurement reports at a time that enables them to use the information when preparing the next Long-Term Council Community Plan (LTCCP). If local authorities do not finalise the measurement reports in a timely fashion, there is a risk that LTCCPs will need to be amended when the measurement reports do become available.
  - Identified effects of activities on community well-being – we found only marginal change in disclosure for 2007/08, in relation to the previous year, and the disclosure for a significant number of local authorities was still insufficient to meet the requirements of the Act.
  - Acquiring and replacing assets – we again found only marginal change in 2007/08 disclosures relative to the previous year, with a significant number of local authorities failing to meet the requirements of the Act.
- 2.6 In future years, we will be taking a much stronger stand on failures to meet the agreed standard of disclosure for this reporting.<sup>1</sup>

<sup>1</sup> See Part 11 of this report, which sets out our intended work on auditing service performance information.

## The requirements in the Act

- 2.7 The Act contains a comprehensive planning and reporting framework to assist each local authority to engage with its community on its intended actions (the planning phase), and to account for its actual performance against those intentions in the annual report (the reporting phase).
- 2.8 The Act requires the Auditor-General to audit aspects of local authorities' planning and reporting phases, through his work auditing LTCCPs (which reflect local authorities' intentions) and auditing local authorities' annual reports (including reports of local authorities' actual performance).
- 2.9 The Act contains disclosure requirements for groups of activities relating to the planning phase. This is to establish a framework for reporting actual performance in the annual report. These planning requirements are those set out in clauses 1 and 2 of Schedule 10 of the Act.
- 2.10 This Part focuses on the reporting phase, and the requirements that relate to it set out in clause 15 of Schedule 10 of the Act. These requirements relate to local authorities' disclosure of information about groups of activities in annual reports, and include disclosure of:
- any measurement of progress in achieving community outcomes;
  - identified effects of local authority activities on environmental, economic, social and cultural well-being in their communities; and
  - details about significant assets acquired or replaced.
- 2.11 The reporting requirements relating to groups of activities<sup>2</sup> apply whether the activities are provided by the local authority itself, by a council-controlled organisation or through any other delivery method.
- 2.12 Local authorities can group activities, as they consider appropriate, for the purposes of delivery, planning and reporting.
- 2.13 The Act requires the annual report to be structured on a "group of activities" basis.<sup>3</sup> For each group of activities of the local authority, the annual report must:
- identify the activities within the group of activities;<sup>4</sup> and
  - identify the community outcomes to which the group of activities primarily contributes.<sup>5</sup>

2 An "activity" is defined in the Act as a good or service provided by, or on behalf of, a local authority or a council-controlled organisation, and a "group of activities" includes one or more related activities.

3 Clause 15 of Schedule 10 of the Act.

4 Clause 15(a) of Schedule 10 of the Act.

5 Clause 15(b) of Schedule 10 of the Act.

- 2.14 For each group of activities of the local authority, the annual report must also:
- report the results of any measurement of progress in achieving community outcomes;<sup>6</sup> and
  - describe any identified effects that any activity within the group of activities has had on the social, economic, environmental, or cultural well-being of the community.<sup>7</sup>
- 2.15 In addition to information about any measurement by a local authority of progress in achieving community outcomes and any identified effects of activities, the annual report must include an audited statement of service performance:
- comparing actual levels of service for each group of activities against the intended levels of service (as set out in the LTCCP for that year); and
  - giving the reasons for any significant variation between actual and expected levels of service provision.<sup>8</sup>
- 2.16 The annual report must also include one further audited statement that:
- describes any significant acquisitions or replacements of assets in the year and giving reasons for them; and
  - gives the reasons for any significant variation between the acquisitions and replacements projected in the LTCCP and those actually made.<sup>9</sup>

## What local authorities need to do to meet these requirements

- 2.17 As a result of the above requirements, the annual report must include information about community outcomes, community well-being, levels of service provision and the acquisition and replacement of assets, to enable the community to evaluate the local authority's performance in these important areas.
- 2.18 Figure 4 summarises the related legislative requirements concerning disclosure of information in these areas, in both the LTCCP (the planning phase) and the annual report (the reporting phase).
- 2.19 The darker shaded boxes show the areas within the reporting phase that we focused on in our review and assessment of the 2007/08 annual reports. The reasons we focused on these areas are explained in paragraph 2.20.

6 Clause 15(c) of Schedule 10 of the Act.

7 Clause 15(d) of Schedule 10 of the Act.

8 Clause 15(e) of Schedule 10 of the Act.

9 Clause 15(f) of Schedule 10 of the Act.

**Figure 4**  
Summary of related requirements in the LTCCP and annual report for each group of activities

LTCCP (clauses 1 and 2 of Schedule 10 of the Act) (planning phase)	Annual report (clause 15 of Schedule 10 of the Act) (reporting phase)
Describe the community outcomes, how they have been identified, how the local authority will contribute to their achievement and work with others to further them, and how they fit with other local authority strategies and processes.	
State the measures that will be used to assess progress in achieving community outcomes.* State how the local authority will monitor and report on the community's progress in achieving community outcomes (which must not be less than once every three years).**	In relation to each group of activities, report the results of <i>any measurement</i> carried out during the year, of progress in achieving community outcomes.
For each group of activities, identify the activities within them.	For each group of activities, identify the activities within them.
Identify the rationale for delivery of the group of activities (including the community outcomes to which the group of activities primarily contributes).	Identify the community outcomes to which the group of activities primarily contributes.
Outline <i>any significant negative effects</i> that any activity (within the group of activities) may have on environmental, economic, social, or cultural well-being.	Describe <i>any identified effects</i> that any activity within the group of activities has had on environmental, economic, social, or cultural well-being.
State intended levels of service provision for each group of activities.	Contain an audited statement of levels of service provision.
Identify detailed information about assets required for each group of activities, including information about forecast acquisition and replacement.	Contain an audited statement about acquisition and replacement of assets.

\* Clause 1(f) of Schedule 10 of the Act.

\*\* Clause 1(g) of Schedule 10 and section 92(1) of the Act.

2.20 In reviewing the 2007/08 annual reports, we focused on the three areas shaded in Figure 4 for the following reasons:

- For reporting of any measurement of progress in achieving community outcomes, we felt that some local authorities would have finalised the three-yearly progress report required by section 92 of the Act, and we therefore expected those local authorities to have reported this in the annual report, along with any other measurement that was done during the year.
- For the description of identified effects on environmental, economic, social, or cultural well-being, and for the asset acquisition and replacement information, we have found from our previous reviews that these are the least well addressed of the annual report requirements specified in the Act. (This was also why we focused on these two areas in our review of 2006/07 annual reports.)

### Measuring progress in achieving community outcomes

2.21 Community outcomes are a core part of the community involvement and accountability framework in the Act. Local authorities must carry out a process to identify community outcomes at least every six years.<sup>10</sup>

2.22 A local authority needs to decide, and state in the LTCCP, how it will measure and monitor progress in achieving community outcomes so that it can report on that progress in the three-yearly report required by the Act.<sup>11</sup>

2.23 Having consulted with other organisations and the community on desired outcomes, local authorities must work with relevant organisations and groups to agree on monitoring and reporting procedures, including the use by the local authority of any monitoring done by those other organisations or groups.<sup>12</sup>

2.24 The reporting requirement for the annual report is for a local authority to include the results of any measurement carried out that year that shows progress in achieving community outcomes.

2.25 This may include three-yearly reports completed in the year, but should also include any other measurement that has been done.

2.26 If there are no measurements in the year, we would generally expect a statement confirming this in the annual report.

2.27 In our view, the three-yearly report on progress in achieving community outcomes should be finalised in time for the local authority and its community to use it when they are preparing the next LTCCP. This means that the report should be prepared sooner than the latest possible date allowed by the Act.

<sup>10</sup> Section 91 of the Act.

<sup>11</sup> Section 92(1) and clause 1(g) of Schedule 10 of the Act.

<sup>12</sup> Section 92(2) of the Act.

- 2.28 We expected that some of the 2007/08 annual reports we reviewed would contain information about three-yearly reports, given the lead time involved in drafting and consulting on the next LTCCP (the final version of which has a statutory deadline of 30 June 2009) and the desirability of having the progress report available for the preparation of the LTCCP.
- 2.29 Where local authorities fail to finalise the three-yearly report in time for it to be used in preparing the next LTCCP, there is a risk that the finalised LTCCP will need to be amended because of new information in the three-yearly report.

### What we found

- 2.30 A few local authorities had completed three-yearly reports on progress in 2007/08 on progress in achieving community outcomes, and disclosed this in the 2007/08 annual reports. Some of these local authorities had provided a summary of the three-yearly report findings in the annual reports.
- 2.31 Some, however, had merely stated the fact they had completed the three-yearly report, without providing any useful information about the findings. We do not consider this latter treatment meets the requirements of the Act.
- 2.32 A number of local authorities usefully stated in the annual report that three-yearly reports had not been completed during 2007/08, and some of these gave an indication of when they were expected to be finalised.
- 2.33 Many local authorities had disclosed information in the 2007/08 annual report about other measurements of progress in meeting community outcomes.
- 2.34 Some of these local authorities had provided comprehensive disclosure, and had integrated this reporting with their other annual reporting and their performance management frameworks. Others had not.
- 2.35 From our review of local authority self-assessments, used in the audit of the 2009-19 LTCCPs, we are aware that many local authorities were finalising, or planning to finalise, the three-yearly reports after the end of the 2007/08 financial year end (and therefore too late to report in 2007/08), but still in time to inform the preparation of the next LTCCP (and to be disclosed in the annual report for 2008/09).
- 2.36 Some local authorities are still developing their performance management frameworks, and therefore they will continue to have problems reporting effectively on the achievement of community outcomes. We expect a local authority to ensure that its performance management framework is an integrated package that links community outcomes with performance measures, targets, and

levels of service. With such a linked framework, it is easier for local authorities to report on progress in achieving community outcomes<sup>13</sup> and the identified effects of activities.

2.37 We will continue to monitor this area in future years.

### Identified effects of activities on community well-being

2.38 Another core part of the framework in the Act is the promotion of environmental, social, economic and cultural well-being in the local authority region or district.

2.39 Local authorities must involve the community on how to promote these four aspects of community well-being.

2.40 They are also required to report in their annual report on “any identified effects” (positive and negative) that any activity has had on social, economic, environmental or cultural well-being of the community.

2.41 The fact that an effect must be “identified” means that it must be a measured or observed effect. A local authority therefore needs a system for measuring the effects of its activities so that it can report on them.

2.42 We appreciate that this is not easy. It can be challenging for a local authority to identify and report on the full range of effects that an activity may have on environmental, social, cultural or economic well-being. Some effects are more easily identified than others. For example, the positive environmental and social effects of a local authority’s activities to improve recreational water quality in its district may be more easily measured and identified than the effect of providing museums, art galleries and community centres on social and cultural well-being.

### What we found

2.43 Overall, we observed some marginal improvements in the information presented in the 2007/08 annual reports compared with the previous year. A significant proportion of local authorities still did not meet the requirements of clause 15(d) of Schedule 10 of the Act in 2007/08 – that is, these authorities did not effectively identify the effects of activities on the well-being of the community. These requirements have now been in place for four years, and we had expected a better performance.

2.44 Many local authorities discussed the effects of their activities. However, many of the effects identified appear to repeat a local authority’s aim or objective for that activity rather than report an identified effect. Local authorities need to distinguish between intended and identified effects. For example, the general statement that “this activity contributes to economic and social well-being

<sup>13</sup> Clause 1(g) of Schedule 10 of the Act.

through protecting the safety of residents” is describing an *intended* effect rather than an *identified* effect.

- 2.45 Many local authorities failed to explicitly link any discussion of effects of activities to community well-being. Some of these links could be inferred but this depended on the quality of a local authority’s performance management framework, and in many cases these links were not clearly made.
- 2.46 Under the Act, an annual report is required to report all identified effects of its activities, negative and positive, but a number of local authorities continue to identify only negative effects in their annual report.
- 2.47 A number of local authorities usefully discussed the risks associated with the effects of their activities and how these were being managed.
- 2.48 Several local authorities included extensive sustainability information in their annual reports. Some of these included useful information about the effects of local authority activities on community well-being. However this information was not always provided within, or linked well to, the disclosed information in the sections in the annual report on groups of activities. Given that the requirements of the Act are requirements relating to groups of activities, such disclosure does not in all cases clearly address the requirements of the Act.
- 2.49 Overall, we conclude that the sector is still a long way from meeting the requirements of clause 15(d) of Schedule 10 of the Act for clear reporting on the identified effects of activities on the four aspects of community well-being. We are disappointed that there was only marginal improvement in this area in the 2007/08 annual reports.
- 2.50 To better meet the requirements of clause 15(d), local authorities could in particular:
- move away from making generalised statements (for example, from restating local authority aims) to identifying actual effects;
  - address all effects and not just negative ones; and
  - more strongly link activities and their effects through the performance framework – because a linked framework would make it easier for local authorities to report on progress with community outcomes<sup>14</sup> and on the identified effects of activities.

<sup>14</sup> Clause 1(g) of Schedule 10 of the Act.

## Acquiring and replacing assets

- 2.51 The Act, through the LTCCP and the annual plan, creates the framework against which the annual report discloses actual results. This includes how assets will be maintained, replaced, and renewed, and how costs will be met.<sup>15</sup>
- 2.52 Significant asset acquisitions and replacements are noted in planning financial forecasts, and are disclosed in the budget sections of the LTCCP.
- 2.53 The annual report must contain a statement describing any significant acquisitions or replacements of assets, and giving the reasons for those acquisitions or replacements, and the reasons for any significant variation between acquisitions and replacements projected in the LTCCP and those actually made.
- 2.54 The Act requires us to audit the statement of asset acquisitions and replacements.

### What we found

- 2.55 We saw only marginal changes in the information presented in the 2007/08 annual reports compared with the previous years. A significant number of local authorities still did not comply with the requirements of clause 15(f) of Schedule 10 of the Act in 2007/08.
- 2.56 Some local authorities reported significant variations between the LTCCP and the actual asset programme. Few provided information of any depth on the reasons for these variations.
- 2.57 A small number of local authorities provided a list of all assets acquired and disposed of as a separate section in the annual report. They included the reasons for the acquisition or disposal of those assets. Where the information and explanations were clear and thorough, they provided a snapshot of all local authority acquisitions and replacement of assets.
- 2.58 Of the local authorities that provided information on, and reasons for, the variations, different authorities reported it in different places in the annual report, and some of the local authorities reported it in several places – the report by the mayor, chairperson, or chief executive; in the financial statements; or in the groups of activities. However, unless the variation and its reasons are clearly identified and explained in the same section, it is not easy to determine the difference between the LTCCP or annual plan projections and the actual expenditure or acquisitions carried out during the year.
- 2.59 Providing high-level information on significant asset decisions (for example, advising of delays to, or bringing forward of, major asset acquisitions) in the mayor's or chairperson's foreword is useful for the public. However, the

<sup>15</sup> Clause 2(1)(d) of Schedule 10 of the Act.

information is subject to audit and is best included within the audited section of the annual report, rather than only in the mayor's or chairperson's foreword.

- 2.60 Where variations were reported in the financial statements section, they were often aggregated and not linked to the groups of activities to which the particular assets related. Information presented in this way does not provide the community with accessible information on specific actions carried out by the local authority for significant assets, and does not provide the link to activities required by the Act.
- 2.61 Putting asset information in the groups of activities, together with other required disclosure of financial information and levels of service provision, keeps this information in one place within the group of activities to which it relates.
- 2.62 Overall, we conclude that a significant number of local authorities still do not clearly address the requirements of clause 15(f) of Schedule 10 of the Act. This is usually because there is no explanation of the reasons for the acquisition, replacement, or variation. In some cases, the local authority completely failed to address the requirements.
- 2.63 We remain concerned about this finding. Asset acquisition and replacement are important to sustaining and developing services. Most local authority plans – including the LTCCP – centre on the sustainable delivery of desired levels of service. Identifying an appropriate asset development programme that incorporates acquisition and replacement is central to demonstrating sustainability of services. Without this information, an important aspect of accountability is missing, and information useful to the reader is not available.

## Concluding comments

- 2.64 It is clear from our previous reviews of reporting by the sector in this area,<sup>16</sup> and from our review of annual reports for 2007/08, that the requirements of clause 15 of Schedule 10 of the Act relating to annual reports continue to challenge local authorities. This is an area in which substantial improvement is still needed.
- 2.65 To be able to effectively meet the reporting requirements, and to meet the corresponding requirements of clauses 1 and 2 relating to LTCCPs, local authorities need to have a comprehensive performance management framework that links their monitoring of community outcomes, decision-making and performance to their reporting. Annual reports need to include the identified effects of activities on the four aspects of community well-being.
- 2.66 In future years, we expect to see better reporting of activities in annual reports, particularly against the second-generation LTCCPs for 2009-19.

<sup>16</sup> *Local Government: Results of the 2003-04 Audits* (2005); *Local government: Results of the 2004-05 audits* (2006); *Local government: Results of the 2005-06 audits* (2007); and *Local government: Results of the 2006-07 audits* (2008). These reports are available on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

## Part 3

# Non-standard audit reports issued in 2008

3.1 In this Part, we report on the non-standard audit reports issued during the 2008 calendar year on the annual financial statements of entities within the local government portfolio of audits.<sup>1</sup>

### Why are we reporting this information?

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

3.3 In each case, the issues underlying a non-standard audit report are drawn to the attention of the entity and discussed with its governing body.

### What is a non-standard audit report?

3.4 A non-standard audit report<sup>2</sup> is one that contains:

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

3.5 An auditor expresses a qualified opinion because of:

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

3.6 There are three types of qualified opinions:

- an "adverse" opinion (see paragraph 3.10);
- a "disclaimer of opinion" (see paragraph 3.14); and
- an "except-for" opinion (see paragraph 3.17).

3.7 The auditor will include an explanatory paragraph (see paragraph 3.21) in the audit report to emphasise a matter such as:

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

<sup>1</sup> The local government portfolio of audits includes regional, city, and district councils, licensing trusts, airports, council-controlled organisations, council-controlled trading organisations, energy companies, port companies, and Sinking Fund Commissioners. We report separately on entities within the central government portfolio in our yearly report on the results of audits for that sector.

<sup>2</sup> A non-standard audit report is issued in accordance with the Institute of Chartered Accountants of New Zealand Auditing Standard No. 702: *The Audit Report on an Attest Audit*.

- 3.8 Auditors are required to ensure that an explanatory paragraph is included in the audit report in such a way that it cannot be mistaken for a qualified opinion.
- 3.9 Figure 5 outlines the decisions to be made when considering the appropriate form of audit report.

### Adverse opinions

- 3.10 An adverse opinion is expressed when the auditor and the entity disagree about the treatment or disclosure of a matter in the financial statements and, in the auditor's judgement, the treatment or disclosure is so material or pervasive that the report is seriously misleading.
- 3.11 An adverse opinion is the most serious type of non-standard audit report.
- 3.12 During 2008, adverse opinions were expressed for eight entities. In this and the following sections, where an entity is directly or indirectly controlled by one or more city or district councils, we have listed the councils in footnotes:
- Southland Museum and Art Gallery Trust Board Incorporated (for financial years ended 30 June 2007 and 30 June 2008);<sup>3</sup>
  - The Museum of Transport and Technology Board;
  - The Canterbury Museum Trust Board;
  - Otago Museum Trust Board;
  - Far North Regional Museum Trust;<sup>4</sup>
  - Hawarden Licensing Trust;
  - Charleston Goldfields Hall Board (for financial years ended 30 June 2006 and 30 June 2007); and
  - Nelson Creek Recreation Reserve Board.
- 3.13 Details of the adverse opinions are set out in the Appendix.

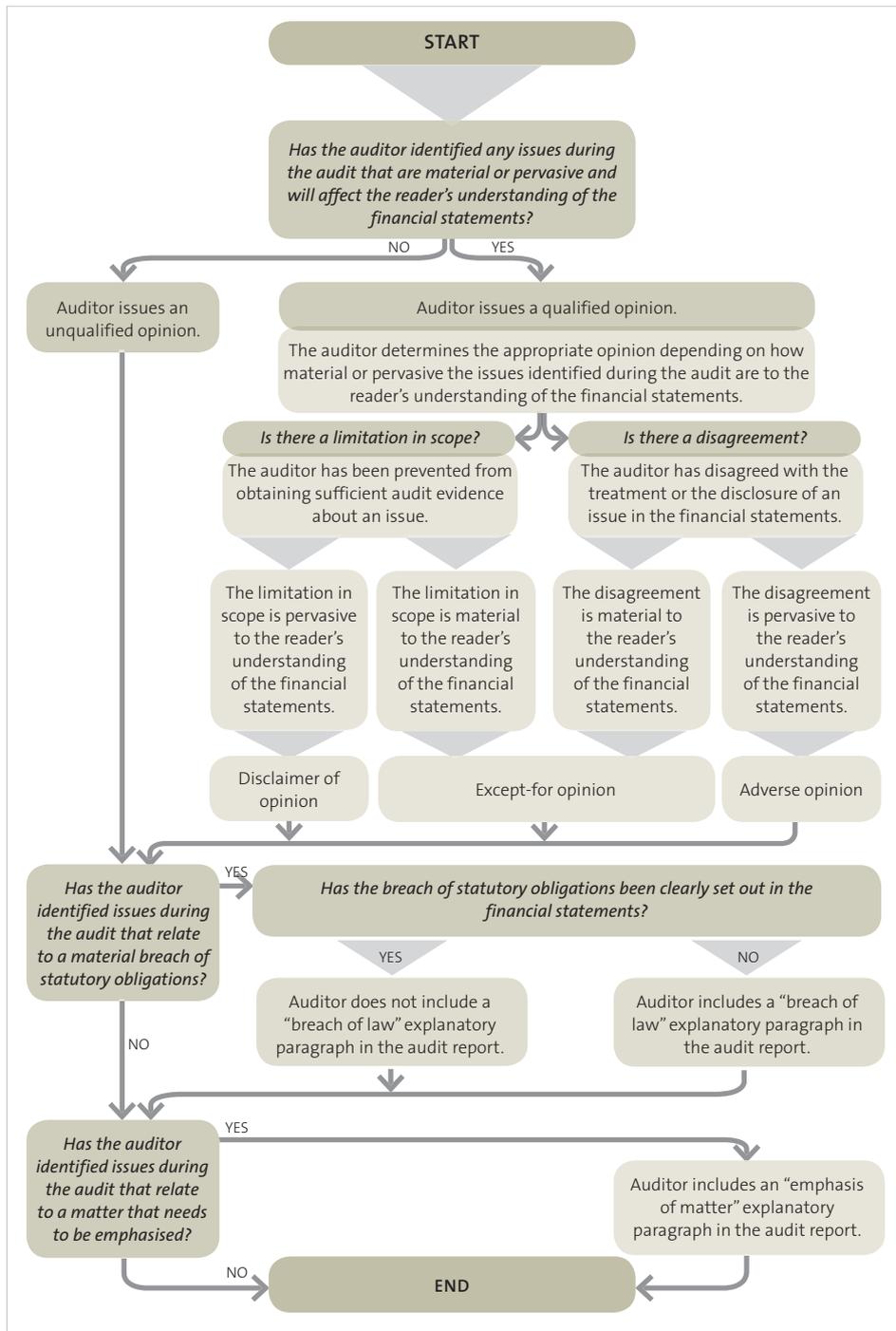
### Disclaimers of opinion

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

3 Gore District Council, Invercargill City Council, and Southland District Council.

4 Far North District Council.

**Figure 5**  
Deciding on the appropriate form of audit report



- 3.15 During 2008, disclaimers of opinion were expressed for the following entities.
- Kaikoura Enhancement Trust (for financial years ended 30 June 2003 and 30 June 2004);<sup>5</sup> and
  - Winton Racecourse Reserve Trustees (for statement of accounts for the six years ended 30 June 2004).
- 3.16 Details of the disclaimers of opinion are set out in the Appendix.

### Except-for opinions

- 3.17 An except-for opinion is expressed when the auditor reaches one or both of the following conclusions:
- The possible effect of a limitation in the scope of the auditor's examination is (or may be) material, but is not significant enough to require a disclaimer of opinion. The opinion is qualified by using the words "except for the effects of any adjustments that might have been found necessary" had the limitation not affected the evidence available to the auditor.
  - The effect of the treatment or disclosure of a matter with which the auditor disagrees is (or may be) material, but is not significant enough to require an adverse opinion. The opinion is qualified by using the words "except for the effects of" the matter giving rise to the disagreement.
- 3.18 An except-for opinion can be expressed when the auditor concludes that a breach of statutory obligations has occurred and that the breach is material to the reader's understanding of the financial statements. An example of this is where a local authority subsidiary has breached the requirements of the Local Government Act 2002 because it has not prepared a statement of intent. The subsidiary is therefore unable to prepare performance information that reflects its achievements measured against performance targets.
- 3.19 During 2008, except-for opinions were expressed for 20 entities:
- Invercargill City Council and group (for financial years ended 30 June 2005 to 30 June 2008);
  - Invercargill City Holdings Limited (for financial years ended 30 June 2007 and 30 June 2008);<sup>6</sup>
  - Kaikoura Enhancement Trust (for financial years ended 30 June 2005 and 30 June 2006);<sup>7</sup>
  - Aurora Energy Limited;<sup>8</sup>

5 Kaikoura District Council.

6 Invercargill City Council.

7 Kaikoura District Council.

8 Dunedin City Council.

- Hawke's Bay Cultural Trust (Incorporated);<sup>9</sup>
- Wanganui Incorporated (for period ended 30 June 2006 and financial years ended 30 June 2007 and 30 June 2008);<sup>10</sup>
- East Otago Community Sports and Cultural Centre Trust;<sup>11</sup>
- Tauranga City Venues Limited;
- Mapiu Domain Board;
- Electra Limited;
- Innovative Waste Kaikoura Limited;<sup>12</sup>
- The Southern Rural Fire Authority;
- Ruapehu-Wanganui-Rangitikei Economic Development Trust (for financial year ended 30 June 2007);<sup>13</sup>
- Pemberton Construction Limited;<sup>14</sup>
- Southland Flood Relief Fund (for financial years ended 30 June 2007 and 30 June 2008);<sup>15</sup>
- Crops for Southland Incorporated (for financial years ended 30 June 2005 to 30 June 2008);<sup>16</sup>
- Auckland Regional Transport Network Limited and group;<sup>17</sup>
- ARTNL Metro Limited;<sup>18</sup>
- ARTNL Britomart Limited;<sup>19</sup> and
- ARTNL Harbour Berths Limited.<sup>20</sup>

3.20 Details of the except-for opinions are set out in the Appendix.

9 Hastings District Council and Napier City Council.

10 Wanganui District Council.

11 Dunedin City Council.

12 Kaikoura District Council.

13 Ruapehu District Council, Wanganui District Council, and Rangitikei District Council.

14 Waikato District Council.

15 Gore District Council.

16 Southland District Council.

17 Auckland City Council.

18 Auckland City Council.

19 Auckland City Council.

20 Auckland City Council.

## Explanatory paragraphs

- 3.21 In certain circumstances, it may be appropriate for the auditor to include additional comments in the audit report. An explanatory paragraph emphasises a matter the auditor considers relevant to a reader's proper understanding of an entity's financial statements.
- 3.22 For example, an explanatory paragraph could draw attention to an entity having breached its statutory obligations for matters that may affect or influence a reader's understanding of the entity.
- 3.23 During 2008, explanatory paragraphs were included in the audit reports for 15 entities:
- Central Plains Water Trust;<sup>21</sup>
  - Hawke's Bay Airport Authority;<sup>22</sup>
  - Cup Village NZ Limited;
  - Cup Village 2000 Limited;
  - Far North Developments Limited;<sup>23</sup>
  - Rotorua District Council Sinking Fund Commissioners;
  - Ruapehu District Council Sinking Fund Commissioners;
  - Ngā Tapuwae Community Facilities Trust;
  - Mackenzie Holdings Limited;<sup>24</sup>
  - Cooks Gardens Trust Board (for financial years ended 30 June 2007 and 30 June 2008);<sup>25</sup>
  - Buller Holdings Limited;<sup>26</sup>
  - Ruapehu-Wanganui-Rangitikei Economic Development Trust (for financial year ended 30 June 2008);<sup>27</sup>
  - Pihama Cemetery Trustees;
  - Auckland City Water Limited;<sup>28</sup> and
  - Lakes Leisure Limited.<sup>29</sup>
- 3.24 The reasons for the explanatory paragraphs are set out in the Appendix.

21 Selwyn District Council.

22 Hastings District Council and Napier City Council.

23 Far North District Council.

24 Mackenzie District Council.

25 Wanganui District Council.

26 Buller District Council.

27 Ruapehu District Council, Wanganui District Council and Rangitikei District Council.

28 Auckland City Council.

29 Queenstown Lakes District Council.

## Part 4

# Local authority exposure to liabilities from leaky home claims

- 4.1 The exposure to liabilities from leaky home claims continues to be a significant issue for the local government sector. Liabilities amounting to \$167.9 million have been included in the 2007/08 financial statements of six of the most significantly affected local authorities. This is an increase of \$50.7 million, or 43%, on the amount disclosed in their 2006/07 financial statements. These liabilities cover claims that have been confirmed, and claims that have been notified to local authorities where investigation and confirmation of their validity is still in progress. Methods of quantifying the notified but unconfirmed claims vary between each local authority.
- 4.2 In addition, \$410.4 million has been disclosed as contingent liabilities in the 2007/08 financial statements of these local authorities. This is an increase of \$166.7 million on the amounts disclosed in 2006/07 and reflects further assessment of the estimated future liability by all six of these significantly affected local authorities during the past year. In particular, we note that one local authority has recognised for the first time an estimate of the liability for claims not yet lodged.
- 4.3 It is important to note that the estimate of future claims is not the complete future liability, because four of these local authorities have not quantified and disclosed in their annual reports an estimate for claims yet to be made. The extent of liability recognised by these local authorities is already significant. The full extent of the liability to the local government sector is potentially much greater.

### Background

- 4.4 In 2007 we considered the annual reporting requirements of local authorities in accounting for liabilities from leaky home claims. We gave guidance to our auditors to help them assess leaky home liabilities for each stage of the claims process. The principles included in our guidance were given to local authorities by their appointed auditor.
- 4.5 In our previous report, *Local government: Results of the 2006/07 audits*,<sup>1</sup> we considered the disclosures made by the six most significantly affected local authorities and assessed how well their disclosures were aligned with the guidance we had issued. In our current report, our objective is to update our findings from the disclosures in the 2007/08 financial statements.
- 4.6 In 2007, when we started monitoring the leaky home liability issue, the six most significantly affected local authorities were Auckland City Council, Christchurch City Council, North Shore City Council, Rodney District Council, Waitakere City Council, and Wellington City Council.

1 Published June 2008, and available on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

- 4.7 Manukau City Council and Tauranga City Council now also face a high level of claims.<sup>2</sup> Other local authorities have some claims against them but the number and value of these claims is much lower. However, to compare disclosures with last year, we have reviewed the same six local authorities as last year.

### Categories of claims facing local authorities

- 4.8 We identified three categories of claims that local authorities need to consider when assessing their current and future exposure to liability for leaky homes. Each category represents a progressively increasing level of uncertainty about the extent of a local authority's financial obligations:
- category one – claims notified to local authorities where investigation and review has taken place and the amount of the total claim and the local authority's share has been confirmed;
  - category two – claims that have been notified to local authorities where investigation and confirmation of validity is still in progress, which includes work to assess the other available parties to share the liability and to assess the costs; and
  - category three – claims that may be made against local authorities between now and the end of the statutory limitation period but that have not yet been lodged, which includes issues that may not yet have been identified by the home owner.
- 4.9 Categories two and three are of greatest concern to local authorities because of the associated high level of uncertainty. These categories reflect the “tail” of the leaky home liability issue facing the country.

### Accounting treatment

- 4.10 The accounting standard that applies to accounting for leaky home liabilities is NZ IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. This standard provides the definitions and criteria to identify whether a liability should be accounted for as a provision, and therefore included within the balance sheet of the local authority, or as a contingency, and therefore included only in the notes to the financial statements. The most relevant element of the criteria for leaky home liabilities is the assessment of whether a liability, which requires estimation, can be calculated with enough reliability to meet the definition of a provision.
- 4.11 Our guidance to auditors on the appropriate accounting treatment based on the categories of claims was:
- category one – a provision for the confirmed amount should be recorded in the financial statements;

<sup>2</sup> Manukau City Council and Tauranga City Council had claim levels that were significantly below the six councils listed in paragraph 4.6 at the time of our original analysis in 2007. Rodney District Council currently has a lower level of claims than the five other councils listed in paragraph 4.6 and Manukau and Tauranga city councils.

- category two – a provision for the estimated amount should be recorded in the financial statements; and
- category three – a provision should be recorded in the financial statements if an actuarial assessment has been obtained and is reliable; otherwise it should be disclosed as a contingent liability.

4.12 In practice, identifying category two and category three claims has proved more complex than anticipated when we wrote our guidance paper. In our guidance, we assumed that an actuarial assessment, particularly if carried out by professional actuaries, would be sufficient to meet the requirements of the accounting standards and facilitate accounting for the liability within the financial statements. However, the estimation processes used to assess category two and category three liabilities, whether performed in-house or by a professional actuary, has, in most cases, not been reliable enough to enable the resulting estimation to be accounted for as a provision in the financial statements.

### Approach taken by local authorities

- 4.13 The six local authorities made few changes in their 2007/08 financial statement disclosures compared with those included in 2006/07 financial statements, other than the reassessment, and in all cases there were increases in the values of the liabilities faced by local authorities.
- 4.14 All six local authorities continued, as they did in 2006/07 and earlier years, to appropriately provide for notified and confirmed claims (category one).
- 4.15 For category two claims, one local authority did not change the amount from that provided in 2006/07 but did split the provision into current and non-current portions. Another local authority improved its approach to accounting for leaky home liabilities by making provision for category one and category two claims, where it had previously provided for only category one claims and treated the remainder of the liability as a contingency. These changes were an improvement in the quality of the information disclosed in the local authorities' financial statements.
- 4.16 As we noted last year, the treatment of claims that had been notified but were yet to be investigated and confirmed (category two) continues to vary across the sector. In many cases, based on the information disclosed in the financial statements, it is not clear what approach local authorities have taken to accounting for this category of claims. In some cases, the local authority has divided category two claims into two parts. The part where a higher level of certainty has been obtained has been accounted for as a provision, while the remainder has been treated as a contingent liability. None of the local authorities

following this approach included in their disclosures an explanation of the basis that they had used to make such a distinction.

- 4.17 There appears to be an increasing use of actuaries and other professional expertise to assess these liabilities. However, as we noted last year, the reliability of the estimate can be uncertain even when an actuarial assessment has been completed. This situation has continued this year and, in many cases, still prevents the local authority from meeting the requirements of the accounting standard. The standard requires the estimate to be reliable. The disclosure of the assumptions and uncertainties surrounding the estimate should enable the liability to be treated as a provision and not a contingent liability. On this basis, four out of the six local authorities have continued to disclose category two claims as contingent liabilities rather than accounting for them as provisions in the balance sheet.
- 4.18 With future claims, all six local authorities included some disclosure in their financial statements and have acknowledged the issue as a contingent liability. Two of the six local authorities have included a quantified contingent liability for leaky home claims in their 2007/08 financial statements. The remaining four local authorities have all recorded the issue as part of their contingent liability disclosures. Two of these local authorities have included an estimate of the total liability for all parties involved, and two have disclosed their use of an actuarial assessment to gain an understanding of the extent of the liability they face in the future. However, much uncertainty remains despite the actuaries' review.
- 4.19 We had hoped the use of actuaries would clarify the extent of leaky home liability for the sector. However, we accept that the uncertainties linked with the assumptions that the actuary is required to make do not provide the desired level of clarity. Nevertheless, the increased involvement of actuaries in the assessment of these liabilities has contributed to improved disclosure in the financial statements of these six significantly affected local authorities in the past two years.

## Conclusion

- 4.20 There has been an incremental improvement in reporting by local authorities about leaky home liabilities in the past year. The uncertainties associated with assessing future liabilities because of leaky home claims has not been significantly reduced by increased actuarial assessments. However, overall the information disclosed in local authority financial statements is more extensive and informative than in the past. It is clearly evident, from the large increase in the value of the liabilities disclosed by the six local authorities in their 2007/08 financial statements, compared with 2006/07, that leaky home liabilities remain a significant issue for these local authorities in particular, and for the local government sector as a whole.

## Part 5

### Inquiries in 2007/08

5.1 The Auditor-General has a mandate to inquire into a public entity's use of its resources, at his discretion. An inquiry usually involves looking into financial, accountability, governance, or conduct issues. During 2007/08, we carried out 99 inquiries relating to local authorities.<sup>1</sup>

5.2 In this Part, we discuss:

- two areas we received a lot of complaints about:
  - local authority decisions made soon after the 2007 local government elections;
  - compliance with the Local Government Act 2002 (the Act); and
- two specific inquiries:
  - a proposed international cuisine school for the Wairarapa; and
  - the West Coast Development Trust (now operating as Development West Coast).

#### Decisions made after the 2007 elections

5.3 We received several complaints about local authorities deciding to change or reverse existing policies soon after the local government elections in October 2007. Most of these complaints were about a lack of consultation with the community and compliance with the Act. In our view, these complaints raised important issues about the relationship between the Act's decision-making requirements and the democratic and political context of local authority decision-making.

5.4 Councillors and mayors will have opinions, will have campaigned on those opinions, and will wish to implement decisions consistent with their opinions and campaign messages. They will take office with publicly stated views on a wide variety of policy issues, and may have a sense of obligation to honour what they may see as commitments made to voters. In practice, the ability of any individual to implement their policies and commitments will depend on their ability to influence the collective decision-making of the local authority, and on the status of any existing decisions or commitments by the local authority.

5.5 We inquired into three decisions made by local authorities soon after the October 2007 elections:

- Auckland City Council's community housing budget;
- North Shore City Council's support for developing Whenuapai Airbase; and
- Far North District Council's relocation of its consent office.

<sup>1</sup> We classify inquiries into three categories – “routine”, “sensitive”, and “major” – depending on the seriousness of the issues raised. For details, see pages 56-58 of our *Annual Report 2007/08*, available on our website at [www.oag.govt.nz](http://www.oag.govt.nz). In 2007/08, 97 of the inquiries were routine and two were sensitive.

### **Auckland City Council's community housing budget**

- 5.6 Auckland City Council decided to reduce the budget for an affordable housing programme. The original programme had been consulted on (as part of the 2006-16 Long-Term Council Community Plan, or LTCCP). We received a complaint that the community was not consulted about the change to the budget for that programme.
- 5.7 The LTCCP stated the Council's intentions to investigate affordable housing. In December 2007, after the local authority elections, a decision was made to reduce the funding to a particular provider of affordable housing from \$9 million to about \$2.5 million.
- 5.8 In our view, the Council acted in keeping with the decision-making requirements in the Act. It was not, under its own policy on significance, required to consult with the community before deciding to reduce the amount of funding it provided. This decision was also consistent with the LTCCP, which had scope for the Council to change its funding for particular organisations.
- 5.9 We noted that the decision-making process could have been strengthened if, for example, summary information specifically about the community's views had been presented to the Council as it made its decision. We also suggested that the Council consider and adopt a clear policy on affordable housing.

### **North Shore City Council's support for developing Whenuapai Airbase**

- 5.10 We looked into the North Shore City Council's decision about its support for Waitakere City Council's proposal to develop Whenuapai Airbase, following a complaint about a lack of consultation.
- 5.11 In 2002, the Government announced that the New Zealand Defence Force would reduce its presence at Whenuapai Airbase. In 2006, the Council decided to support Waitakere City Council's proposal to develop a commercial airport at Whenuapai. At their first meeting in October 2007, the new mayor and Council rescinded the Council's 2006 decision. The Council did not consider either the 2006 decision or the 2007 decision to be significant or to require formal consultation.
- 5.12 Essentially, the information that was before the Council in October 2007 was the same as the information considered in 2006. The overall policy issue was the same and little had changed in the intervening year to alter the factual or analytical context for the decision.

- 5.13 In our view, the Council operated consistently in making the two decisions, and its process was adequate to meet the requirements of the Act. Given the clear direction in section 79 of the Act to give local authorities much discretion, we saw no basis for questioning the adequacy of the Council's actions.
- 5.14 The Council's documentation supporting the decisions was not prepared in a way that made it easy to understand the reasons for the decisions, or to see how the requirements of the Act were being met. We told the Council that it might want to consider whether the principles of transparent decision-making and accountability would be better served if the community could more easily see what the Council was basing its decisions on.

#### **Far North District Council's relocation of its consents office**

- 5.15 We inquired into the Far North District Council's decision in December 2007 to relocate consents staff from Kaikohe to Kerikeri. People thought that the consultation was inadequate and the decision-making requirements of the Act might have been breached.
- 5.16 During the election campaign in October 2007, a mayoral candidate (who was elected) indicated his intention to shift consents staff to provide better services to developers with projects on the eastern side of the district. After he was elected as mayor, the Council began to consider how such a shift could proceed. Staff prepared a report to the Council and assessed the matter as being of moderate significance under the Council's policy on determining significance.
- 5.17 In our review, we emphasised the importance of focusing on "the right question". We considered that the important decision was the initial decision to move the staff from Kaikohe to Kerikeri. Any implementation decisions were effectively incidental.
- 5.18 In our view, the Council's processes met the requirements of the Act because the moderate significance assessment meant that there was no legal requirement to formally consult the community. We encouraged the Council to consider further procedural steps to promote transparent decision-making and community understanding of issues.

#### **Compliance with the Local Government Act 2002**

- 5.19 We often receive complaints from members of the public that a local authority has not complied with the decision-making process set out in the Act. Only a court can rule on whether an authority has complied with the legislation. Our concern is with the more practical question of whether we can see sound

administrative and decision-making processes operating, and whether we have any doubts about compliance with the legislative requirements.

- 5.20 The Act, as a whole, creates a structure of representative democracy for local authorities and requires them to take a participatory and disciplined approach to making decisions.
- 5.21 The Act sets out requirements designed to ensure a measure of rigour and transparency in local authority decision-making processes. In particular, sections 77 and 78 require local authorities to identify options for achieving an objective and to assess those options against specified factors. Local authorities are also required to consider the views of those likely to be affected by, or interested in, the matter at various points in the process.
- 5.22 The Act does not specify standards for how those views should be obtained, the depth or detail that is required, or what evidence is needed to show that a local authority has complied. However, section 79 makes it clear that a local authority can change the way it meets those requirements to match the significance of the issue. The local authority decides, at its discretion, on the appropriate extent, detail, and nature of what it does to meet those requirements.
- 5.23 The discretion allowed by the Act specifically covers the extent to which options are assessed and relative benefits and costs are quantified, the extent and detail of information to be considered, and the extent and nature of any written record that is kept of compliance. The Act also makes it clear that assessing significance in any given case is a subjective judgement for the local authority to make.
- 5.24 Our inquiry into the process the Christchurch City Council used for a decision in July 2008 is an example of an inquiry to assess compliance. The Council decided to purchase properties in and around central Christchurch at a cost of about \$17 million.<sup>2</sup> There was much public interest in this decision and we received many requests to inquire.
- 5.25 Overall, the process the Council followed was sound and complied with the decision-making principles set out in the Act. We acknowledged that the Council's decision was made under time pressure and that the Council considered relevant factors, including its policy on determining significance. However, we noted some areas that could be improved in the Council's decision-making processes.
- 5.26 The extent to which a local authority considers, or is seen to consider, the views of the community often causes concern for ratepayers. It is important that local authorities take a transparent and well-documented approach to considering the views of the people they serve.

<sup>2</sup> Our report on the outcome of this inquiry is available on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

## Funding arrangements for a proposed cuisine school

- 5.27 We were asked to inquire into a proposed international cuisine school in the Wairarapa. The international cuisine school was to be established by the Universal College of Learning (UCOL), as part of a wider Wairarapa Cuisine and Fine Wine programme funded by New Zealand Trade and Enterprise (NZTE). However, UCOL later indicated that it would not be proceeding with a cuisine school at Martinborough in the Wairarapa.
- 5.28 The business plan for the cuisine and wine programme was prepared by Go Wairarapa, which was then the economic development agency for the three Wairarapa district councils. The business plan was prepared after consultation with leaders from the wine and food industries in the Wairarapa and with the support of the three councils. Part of the funding arrangement with NZTE required the three councils to provide \$300,000 towards establishing the infrastructure component of the programme.
- 5.29 Go Wairarapa, and subsequently its successor Grow Wellington, was responsible for administering the programme contract with NZTE, with the cuisine school component sub-contracted to UCOL.
- 5.30 There was no suggestion that the councils' funds were used for purposes other than the purposes for which they were contributed. However, the councils might not have realised that their funding was specifically for the infrastructure component of the food and wine programme, and only indirectly for the cuisine school and wine strategy components. Comments from the three councils suggested that the structure of the funding arrangement administered by Go Wairarapa was not clear to them.
- 5.31 UCOL had the authority to decide to change the location of the cuisine school. UCOL was the entity responsible for building the school facilities and obtaining the funding to do so. However, its decision not to proceed with the Martinborough location could have been more collaborative. We also noted that there was an "at risk" element to the funding and its success. While the parties intended for there to be a cuisine school operating in the Wairarapa, there was no guarantee that this would be the outcome.
- 5.32 As a result of our enquiries, we decided that there were no grounds to take this matter further.

## Governance issues on the West Coast

- 5.33 We inquired into the West Coast Development Trust (the Trust), after receiving information about how it was operating, and allegations of conflicts of interest.<sup>3</sup> The Trust, now operating as Development West Coast, was established in 2001 to administer the \$92 million given by the Crown to help the West Coast economy to adjust to the Government's policies to end the logging of indigenous forests.
- 5.34 We looked at the role of the Trust, its external and internal relationships, how it managed conflicts of interest, its systems for disclosing information and the consequences of unauthorised disclosure, and the authority for making decisions.
- 5.35 Important relationships within the Trust had broken down, and behaviour had emerged that was less than satisfactory in a public entity. We made one recommendation – that the trustees urgently find a way to work together so that they could take effective collective responsibility for the governance of the Trust. If the trustees are unable to do so, they should consider stepping down. We were unable to provide assurance that the Trust was able to operate effectively in the interests of the West Coast region.
- 5.36 Generally, the Trust had appropriate systems for managing conflicts of interest, and there was good awareness of the systems and principles required. We encouraged the Trust to further amend its systems so that conflicts of interest could be identified before meetings, and the appropriate response could be agreed. We noted that it was important that trustees take individual and collective responsibility for managing conflicts of interest, to protect the integrity of the Trust's decision-making systems.

3 Our report on the outcome of this inquiry is available on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

## Part 6

# Audit aspects of electricity lines businesses

- 6.1 In this Part, we discuss aspects of our role in auditing the country's electricity lines businesses. We:
- provide an overview of the electricity lines business sector;
  - describe the regulatory frameworks for disclosure by electricity lines businesses, required because of the monopoly aspects of the sector; and
  - discuss our audit responsibilities in relation to the regulatory frameworks for disclosure.

- 6.2 We note that the audit work associated with the regulatory framework is additional to our statutory role in auditing the annual reports of electricity lines businesses.

### Overview of New Zealand's electricity lines businesses and regulations

- 6.3 New Zealand's electricity industry was significantly reorganised through the Electricity Industry Reform Act 1998. This reorganisation included the separation of electricity supply (generation and retail) from its distribution (transmission through the national grid and local electricity lines).

- 6.4 There are currently 28 local electricity lines businesses in New Zealand. These businesses manage assets that are both financially substantial and a critical part of the wider national energy infrastructure.

- 6.5 Electricity lines businesses are seen as monopolies which, without regulation, could abuse that position. They are regulated by the Commerce Commission through provisions issued under Part 4 of the Commerce Act 1986. The overall purpose of Part 4 of the Act is set out in section 52A:

*... to promote the long-term benefit of consumers ... by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services —*

- (a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and*
- (b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and*
- (c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and*
- (d) are limited in their ability to extract excessive profits.*

- 6.6 The major frameworks for regulating the sector are:
- the threshold disclosure regime; and
  - the information disclosure regime.
- 6.7 The threshold regime sets benchmarks for the delivery of price and quality (including number and duration of service interruptions). These benchmarks are expressed as price and quality thresholds. The detailed requirements of the regime are covered by the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and a 2006 amendment to that notice. The current requirements cover financial years up to 31 March 2009.
- 6.8 The detailed information disclosure requirements were covered by the Commerce Commission's Electricity Information Disclosure Requirements 2004. However, for the years ended 31 March 2008 and onwards, the information disclosure regime is covered by the new requirements set out in the Commerce Act (Information Requirements) 2008. These requirements were published in October 2008, and significantly change and expand the disclosure requirements.
- 6.9 Under the old regime, there was a close alignment between the information disclosure audit requirements and the statutory audit requirements. For example, even though the regulations stipulated a specific methodology for the valuation of line assets, the regulatory audit requirement still focused on core historic financial information, based on generally accepted accounting practice with which the auditor attested compliance in carrying out the statutory audit of the annual financial statements.
- 6.10 The new regime includes audit requirements relating to prospective financial and non-financial information.

### **Audit activity under the regulatory framework**

- 6.11 Both the threshold and the information disclosure regimes require audit and assurance work, additional to the statutory audit required to attest to the financial statements of an individual electricity lines business.
- 6.12 This regulatory audit work provides assurance about the information reported by electricity lines businesses in meeting their responsibilities under the regulatory framework.
- 6.13 The information disclosure regime requires the Auditor-General to be the regulatory auditor where he is the statutory auditor of the annual financial statements. The Auditor-General is auditor of 21 out of the 28 electricity lines businesses.

- 6.14 Beyond this, there is no requirement for the auditor carrying out the additional work required under regulation to be the same auditor who carries out the statutory audit of an electricity lines business' annual financial statements.
- 6.15 All electricity lines businesses have historically used their statutory auditor to perform audit work under the information disclosure regime.<sup>1</sup> As noted in paragraph 6.9, this reflects the close alignment between the statutory annual audit and the requirements under the old information disclosure framework.
- 6.16 Following the introduction of the new information disclosure framework, the use of the same auditor will continue where the Auditor-General is the statutory auditor.
- 6.17 Under the threshold regime, most electricity lines businesses have historically used an auditor other than their statutory auditor to perform the regulatory audit work. For the most recent financial year, 17 of the 28 businesses did so.<sup>2</sup>

### Audit opinions issued under regulatory frameworks

- 6.18 Of the 28 threshold compliance audit opinions, 20 were qualified.<sup>3</sup> The reasons for qualification mainly related to limitations over the availability of independent evidence to support reported information about the performance of lines businesses in meeting the regulated quality thresholds, particularly about recorded faults, and on control data used in the SAIDI (systems average interruption duration index) and the SAIFI (systems average interruption frequency index).
- 6.19 Of the 28 information disclosure audit opinions issued for the last year of the old framework, only one was qualified.<sup>4</sup>

### Concluding comments

- 6.20 Our role in the electricity lines business sector is more extensive than issuing opinions on annual financial statements. Auditors also have an extensive role in issuing opinions on the disclosures required under the regulatory frameworks that govern the sector. The disclosure requirements have recently changed and have become more complex through the inclusion of information relating to prospective and non-financial information. We will be monitoring the effect of these new regulatory requirements on the audit work and the sector.

1 Based on the financial year ended 31 March 2007.

2 Based on the financial year ended 31 March 2008.

3 Based on the financial year ended 31 March 2008.

4 Based on the financial year ended 31 March 2007.



## Part 7

# Financial performance of the port sector

- 7.1 This Part provides an overview of the financial performance of the publicly accountable entities in the port sector. It continues our practice of reporting, in turn, the financial performance of the smaller sectors that fall within the Auditor-General's mandate.
- 7.2 The port sector is critical to New Zealand's exports and the national distribution of imported and domestically produced goods. The sector is facing challenges as it responds to international changes, including a trend towards sector consolidation.
- 7.3 The port sector owns and manages substantial assets (more than \$3.5 billion), particularly port infrastructure assets.
- 7.4 Increasingly, the port sector has become involved in managing portfolios of investment properties, which now represent a significant proportion (12% or \$426 million) of the sector's total asset base.
- 7.5 Local authorities control all companies within the port sector, and rely on them for a significant level of dividend income, which was \$106 million in 2007/08.

### Overview of the port sector and the Auditor-General's role as statutory auditor

- 7.6 The port sector provides essential support for New Zealand's exports and the effective distribution, within New Zealand, of imported and domestically produced goods.
- 7.7 The port sector in New Zealand operates in the context of a global shipping industry that is facing, and responding to, major changes. Internationally, there is a trend towards industry consolidation – fewer shipping companies, larger ships, and fewer port calls.
- 7.8 Transport strategies implemented by the former Government<sup>1</sup> and directions that the current Government takes will also affect the New Zealand port sector.
- 7.9 All port companies within the sector are majority-owned by regional, city, or district councils. The port sector is therefore consolidated into the financial statements of the local government sector, and is a significant provider of dividend funding. Northport Limited is only partially consolidated into the local

<sup>1</sup> The strategies included the New Zealand Transport Strategy (an integrated road, rail, and sea national transport strategy), and a national coastal shipping strategy, Sea Change.

government sector financial statements (and only partially reflected therefore in the analysis in this Part).<sup>2</sup>

- 7.10 Under section 19 of the Port Companies Act 1988 (the Act), the Auditor-General is the auditor of every port company and any subsidiary.
- 7.11 There are 12 port companies, plus a significant number of related entities, that are within the Auditor-General's mandate.
- 7.12 In addition, there are some ports operated by other public entities within existing structures – for example, as an activity within a local authority. The Auditor-General also audits those activities under his mandate as auditor of all public entities. However, this Part does not cover those additional port activities.
- 7.13 Section 8 of the Act requires every port company (with some exceptions)<sup>3</sup> to deliver to its shareholders, and make public, a statement of corporate intent (SCI) within one month of the start of each financial year.
- 7.14 A port company's annual report must include a comparison of performance between the actual results and the SCI.<sup>4</sup>
- 7.15 Companies within the port sector generally have balance dates of 30 June.<sup>5</sup> The Act requires port companies to complete their annual report, including an audit opinion on the financial statements, within three months of balance date; that is, by 30 September.
- 7.16 All companies within the sector met reporting deadlines in 2008, and all audit opinions issued were unqualified.

## Overview of financial performance

- 7.17 Figure 6 summarises the financial results and position of the port sector (excluding full Northport Limited results), based on the most recently audited financial statements.

2 The sector includes Northland Port Corporation (NZ) Limited, which is listed and owned 52.4% by Northland Regional Council, 19.9% by Ports of Auckland Limited (and ultimately Auckland Regional Council). Northland Port Corporation (NZ) Limited owns 50% of the operational port Northport Limited (the other 50% is owned by Port of Tauranga Limited, a company itself 55% owned by Environment Bay of Plenty). As a result of the 50:50 ownership of Northport Limited by Northland Port Corporation (NZ) Limited and Port of Tauranga Limited, the results of Northport Limited are equity accounted for in the financial statements of the local government sector and therefore not fully consolidated.

3 Section 13 of the Act exempts publicly listed port companies (Lyttelton Port Company Limited, Northland Port Corporation (NZ) Limited, Port of Tauranga Limited, and South Port New Zealand Limited) from this requirement. Section 14 also provides an exception in cases where the Minister of Transport directs otherwise.

4 Our June 2007 report *Statements of corporate intent: Legislative compliance and performance reporting* provides more information about the requirements and practices in SCI and associated reporting.

5 The exception is Port of Napier Limited, which has a 30 September year end.

- 7.18 Total reported port operating revenues generated by the sector in 2007/08 were \$704 million,<sup>6</sup> and total reported pre-tax profits were \$204 million. Total assets at the end of the 2008 financial year were substantial and amounted to \$3.5 billion. Total equity was \$2.3 billion.
- 7.19 Based on the reported financial results, the overall returns on equity and assets for 2007/08 were therefore 8.9% and 5.8% respectively.
- 7.20 These returns are significantly affected by the approaches taken across the ports sector to asset valuation and depreciation. These approaches reflect a historic cost component which is likely to result in the returns being overstated when compared with alternative approaches that reflect more current replacement values.
- 7.21 Total operational cashflow for the sector in 2008 was \$206 million,<sup>7</sup> a significant proportion of which was retained and used for investing activities (\$146 million). In 2007/08, these investments contributed to \$190 million of capital expenditure, representing more than 2.5 times the level of depreciation charged for the year.<sup>8</sup> This suggests a relatively high level of new investment in 2008.
- 7.22 Dividends returned to shareholders for 2007/08 amounted to \$106 million. This represents a significant source of funding for the sector's local authority owners.

### The sector's involvement in investment properties

- 7.23 The port sector owns and manages substantial operational infrastructure assets.
- 7.24 A significant part of the port sector's overall asset base also comprises investment properties, amounting to about 12% of total sector assets (\$426 million) at the end of the 2008 financial year.
- 7.25 A number of port companies have built up very significant investment property portfolios.
- 7.26 Some have clearly separated their investment property activities from operational port activities, by holding and managing them through separate specialised subsidiaries and associated entities.

6 This excludes the results of Northport Limited that are not consolidated into the reported results of Northland Port Corporation (NZ) Limited.

7 Again, this excludes the results of Northport Limited that are not consolidated into the reported results of Northland Port Corporation (NZ) Limited.

8 Depreciation totalled \$74 million in 2007/08.

## Unusual accounting treatments

- 7.27 There are a number of accounting areas that are unique to the port sector, which the individual companies deal with in different ways. We comment on two of these areas in paragraphs 7.29-7.33.
- 7.28 We generally encourage consistency of accounting treatment, where the individual company circumstances permit. At the same time, we recognise that these particular accounting areas are not always material to the financial statements overall.

## Dredging costs

- 7.29 Port companies need to dredge approach channels to maintain adequate access to port facilities. However, a number of companies have no stated accounting policy. We recognise that for some port companies, channels and dredging costs may not be material.
- 7.30 Those companies that do disclose an accounting policy have a range of approaches that include:
- treating costs as an expense when incurred;
  - capitalising costs and charging periodic depreciation over an estimated useful life;
  - capitalising costs but charging no depreciation, on the basis of an indefinite useful life; and
  - a combination of the above.

## Noise issues

- 7.31 Port companies are required to address the effects of noise that their activities generate.
- 7.32 Some port companies disclose an accounting policy for noise issues and associated mitigation, and the financial effect of its application. These disclosures confirm that the companies concerned have incurred the cost of mitigation measures, and the existence of contingent liabilities or costs that could arise in future.
- 7.33 Other port companies do not disclose their accounting policy in this area. However, some of these companies acknowledge that they have a plan that addresses the effects of noise.

**Figure 6**  
Summary of audited financial information for 2007/08

Entity name	Port/ operations revenue (\$000)	Profit (pre- tax) (\$000)	Equity (\$000)	Total assets (\$000)	Investment properties (\$000)
Centreport Ltd	52,691	10,486	193,415	339,720	100,345
Lyttelton Port Company Ltd	83,442	15,502	128,027	225,602	-
Northland Port Corporation (NZ) Ltd	491	10,215	155,123	155,726	-
Port Marlborough New Zealand Ltd	11,984	7,325	113,980	137,642	66,197
Port Nelson Ltd	30,260	10,664	134,334	188,684	13,492
Port of Napier Ltd	46,926	13,948	98,448	126,676	7,268
Port of Tauranga Ltd	136,831	60,664	639,210	895,426	440
Port Otago Ltd	53,389	32,069	266,315	401,499	189,467
Port Taranaki Ltd	40,915	8,009	89,257	131,318	-
Ports of Auckland Ltd	169,350	29,229	398,106	827,239	25,398
PrimePort Timaru Ltd	19,912	2,168	65,658	74,014	23,366
South Port Ltd	14,949	4,039	27,129	29,234	-
	<b>703,637</b>	<b>204,318</b>	<b>2,309,002</b>	<b>3,532,780</b>	<b>425,973</b>

*continued overleaf*

Entity name	Cashflow from operations (\$000)	Cashflow from investing activities (\$000)	Capital expenditure (\$000)	Depreciation (\$000)	Dividends paid (\$000)
Centreport Ltd	15,427	(55,421)	55,081	5,492	4,770
Lyttelton Port Company Ltd	24,198	(16,280)	14,669	11,077	4,295
Northland Port Corporation (NZ) Ltd	2,215	5,366	933	78	8,260
Port Marlborough New Zealand Ltd	6,301	(3,751)	3,756	2,213	2,287
Port Nelson Ltd	9,920	(7,152)	9,903	3,839	3,900
Port of Napier Ltd	16,091	(13,295)	15,440	5,172	6,545
Port of Tauranga Ltd	48,990	(25,025)	34,452	11,476	44,231
Port Otago Ltd	15,958	2,963	9,038	6,794	4,400
Port Taranaki Ltd	9,215	(5,376)	5,943	4,465	1,800
Ports of Auckland Ltd	48,022	(22,881)	34,219	18,398	22,764
PrimePort Timaru Ltd	6,025	(3,659)	4,954	3,134	400
South Port Ltd	3,687	(1,248)	1,459	1,867	2,033
	<b>206,049</b>	<b>(145,759)</b>	<b>189,847</b>	<b>74,005</b>	<b>105,685</b>

## Part 8

# Licensing trusts and sensitive expenditure

- 8.1 In February 2007, we published *Controlling sensitive expenditure: Guidelines for public entities* (the guidelines). The guidelines set out our view of good practice that the public sector should use to control sensitive expenditure. The purpose of the guidelines is to help public entities improve their organisational approach to, and control of, sensitive expenditure. We have circulated the guidelines widely in the public sector.
- 8.2 This Part reflects the first phase of our assessment of the effect of the guidelines in the public sector and focuses on the licensing trust sector. We have identified this sector because of the additional, inherent challenges in managing sensitive expenditure that arise for entities operating within the hospitality industry. Typically, such expenditure is a small part of any public sector entity's operations. However an entity's approach to expenditure of this nature is potentially sensitive in the eyes of the public, and needs careful decision-making around what expenditure is acceptable. This is no less the case in the licensing trust sector.

### Summary

- 8.3 Overall, we are pleased with the positive response from entities in the licensing trust sector to the guidelines. Many of these entities had policies in place before the guidelines were issued, and others have developed or enhanced their policies in the past year. On the whole, we are satisfied that the licensing trust sector is in a good position to manage the risks associated with sensitive expenditure as a result of the adoption and application of appropriate policies.
- 8.4 However, our detailed review has identified that there is scope for improvement, particularly on the completeness and appropriateness of policies for the control of sensitive expenditure. In our view, further work by some entities would provide better safeguards for both the sector and the entity itself against the risks associated with sensitive expenditure in the hospitality industry.

### Background

- 8.5 Sensitive expenditure is defined in our guidelines as expenditure by a public entity that could be seen as giving some private benefit to an individual staff member that is additional to the business benefit to the entity. Travel, accommodation, and hospitality spending are examples of areas where problems often arise. It also includes expenditure by a public entity that could be considered to be unusual for the entity's purpose or functions.

- 8.6 Based on our observations over a number of years, we noted in the guidelines that problems most frequently arise when expenditure is:
- of a nature that is, or could be regarded as, extravagant or immoderate for the public sector;
  - incurred without a justifiable and adequately documented business purpose;
  - not adequately substantiated by invoices, receipts, or other relevant documentation to support claims or payments;
  - committed before appropriate authority has been obtained; and
  - made without proper scrutiny to ensure compliance with an entity's policies and procedures.
- 8.7 The guidelines provide a principles-based approach, rather than prescriptive or exact rules. They advocate that those holding positions of leadership in the public sector should establish good controls, apply those controls, and exercise good judgement.

### Focus on the licensing trust sector

- 8.8 We selected the licensing trust sector as the first sector to assess against the guidelines. We did so because of the inherent risks for sensitive expenditure that are faced by all entities operating in the hospitality industry and the careful management that is required by public sector entities in particular.
- 8.9 Licensing trusts can be exposed to much greater pressures in relation to sensitive expenditure transactions than most other public sector entities because of the nature of the hospitality industry. However, as licensing trusts are public entities within the mandate of the Auditor-General, we expect them to operate in the same manner and in accordance with the same standards required of all other public sector entities.
- 8.10 The licensing trust sector is made up of 19 licensing trusts, one community trust, and 24 related entities. Of the related entities, seven are companies established mainly to hold property or to provide administrative services. These entities are generally small. The remaining related entities are charitable trusts set up to administer the proceeds from gaming machines operated at the premises of licensing trusts. The Trust Charitable Foundation Incorporated is the main operator of machines in the licensing trust sector. Some licensing trusts operate machines through their own charitable trust. For the purposes of our review, we focused on the licensing trusts and the significant charitable trusts operated within the sector.

- 8.11 As a result of competition and other changes since licensing trusts were established, the licensing trust sector is made up of entities that do not all carry out the same functions. In a number of cases, licensing trusts now operate only as landlords owning property, or may only administer the operating licenses for premises under contract to a third party. We took account of these differences during our review.

### What we did

- 8.12 In conjunction with the annual audit for the year ended 31 March 2008, we asked our appointed auditors to assess the application of the guidelines by the licensing trust sector. Specifically, we asked our appointed auditors to:
- identify whether entities in the sector had adopted policies to address sensitive expenditure issues;
  - identify whether those policies were based on the principles set out in the guidelines; and
  - test the application of each entity's sensitive expenditure policies for the period 1 October 2007 to 31 March 2008.

### What we found

- 8.13 The findings detailed below are based on information and analysis completed by auditors for the individual licensing trusts for which they are the appointed auditor.

#### No policy established

- 8.14 We found that four licensing trusts had not established any policy to address sensitive expenditure issues.
- 8.15 In one of the four, the trust relied for guidance on the *Management Guide to Discretionary Expenditure* issued by the Institute of Internal Auditors in 1996. Although this is a reasonable source of guidance, we consider it important that every entity establishes its own policy. It is also important for entities in the public sector to ensure that they are drawing guidance from sources that include an adequate consideration of the particular needs of public sector entities.
- 8.16 Of the remaining three licensing trusts that had not established any policy, two were very small trusts that had contracted their operations to another party for a number of years and the third operates on a very small scale. We are sympathetic to the view that a significant number of the policy areas outlined in our guidance may not be relevant to these trusts given their very limited operations. However, we consider that even these entities should assess the guidelines and evaluate

the areas that could be relevant to them, particularly the role and actions of the trustees, in relation to travel, accommodation, entertainment and hospitality, farewells and retirements, and gifts.

### **Policy does not address all areas of the guidelines**

- 8.17 Our review found that many licensing trusts had policies in place to address some areas of sensitive expenditure but that the policy was often not as comprehensive as that advocated by the guidelines. There were two different situations where this occurred.
- 8.18 The first situation was where the nature of the operations of the licensing trust made extending its sensitive expenditure policy into other areas unnecessary. One example was where a licensing trust with limited operations did not operate any corporate vehicles, so a policy about use of corporate vehicles was not relevant. In another case, a licensing trust that contracted with another party to manage its premises did not need a policy on financing staff social club activities as it did not employ any staff. In such cases, we accept that it is appropriate that the trust's policy does not cover those matters.
- 8.19 The second situation was where licensing trusts had not developed certain areas of sensitive expenditure policy on the basis that they did not incur that type of expenditure, or did so infrequently. It is our view that, for the high risk and higher profile areas of sensitive expenditure (air travel, meals and accommodation, entertainment and hospitality, farewells and retirements, and gifts), lack of a clear policy could expose a trust to unnecessary risk of inappropriate practice occurring, even if infrequently.
- 8.20 A significant number of trusts would benefit from reconsidering their current policy, particularly concerning the areas noted in paragraph 8.19. We encourage licensing trusts to take a conservative approach in these areas, as they could attract strong public reaction should any inappropriate practice be identified.

### **Policy in place is inadequate or inappropriate for the public sector environment**

- 8.21 We identified a small number of licensing trusts that had developed sensitive expenditure policies to address the areas that were relevant to their operations, but where, in our view, the content and detail of the policies was inadequate or inappropriate. These policies included examples where important elements of the policy had not been covered and also cases where, in our view, the policy was too liberal or not sufficiently specific to act as a safeguard for the organisation.

- 8.22 For example, we found some policies that allowed for the personal use of air points generated as a result of business-related travel, along with other policies that did not contain any guidance on the use of air points or protocols for other loyalty programmes. We acknowledge that this is a difficult area, and that the approach recommended in the guidelines is conservative. For these reasons, it is all the more important that each public sector entity develops and adopts a clear policy on air points and loyalty programmes, and that the policy rationale is supported by a business case that links to the circumstances of the entity.
- 8.23 As another example, we found policies that did not contain any clear limits on the type and cost of meals, accommodation, entertainment and hospitality. We particularly noted a number of policies about allowable expenditure for alcohol that we did not consider were prudent.
- 8.24 Part 3 of the guidelines clearly sets out the important features of good quality policy. This includes the need to:
- make clear what types of expenditure are and are not permitted;
  - outline clear approval processes that are specific about who approves what, including arrangements for when the usual approver is unavailable;
  - set spending limits or boundaries, including explaining what is meant by “actual and reasonable” when these terms are used, and specifying dollar limits and defined boundaries, where practicable, of what is “reasonable”;
  - allow a manager discretion to grant an exception to a policy or procedure (“management override”) only in exceptional circumstances;
  - specify the monitoring and reporting regime and, where applicable, any internal audit checks that may be applied; and
  - specify the process for amending the policies and procedures.
- 8.25 There are a small number of licensing trusts that need to address these issues. In these cases, their appointed auditor has made this point clearly to the governing body in the management report issued for the 2007/08 annual audit.

### **Application of adopted policy**

- 8.26 As a result of our auditors reviewing a sample of sensitive expenditure transactions, we identified one entity that had not consistently applied its adopted policies during the period sampled, and where there was evidence of transactions that could, on the face of the transaction, be considered as inappropriate in the public sector. Our sample of transactions did not identify any other issues of concern in the sector.

- 8.27 For the entity referred to in paragraph 8.26, the issue has been brought to the attention of the governing body and management through the management report issued for the 2007/08 annual audit. We have previously been concerned about similar transactions by the entity. We are satisfied that the entity now understands the need to carefully consider the rationale and business case associated with such transactions should the same situation arise in the future. In future audits, we will continue to closely review sensitive expenditure transactions by this entity.
- 8.28 Other than the transactions referred to in paragraph 8.27, we have observed sound policy across the sector as a whole, that has been appropriately applied in the period under review. These results were positive, given the challenges faced by licensing trusts as public entities operating in the hospitality industry. We commend the sector for taking action to ensure sound policy and appropriate practice in this area.
- 8.29 We still have some concerns that a small number of entities may have established their policies primarily for the purposes of our review rather than to provide clear and appropriate policies for the future.

## Conclusion

- 8.30 It is clear that our guidelines on sensitive expenditure have been accepted as a useful resource within the licensing trust sector. A significant portion of the sector has used the guidelines to establish or to refresh sensitive expenditure policies. However, some entities need to re-evaluate the completeness and appropriateness of their sensitive expenditure policies. Overall, most of the sector is following appropriate policies for sensitive expenditure and this has significantly diminished the associated risks.

## Part 9

# Our work on procurement

- 9.1 The term procurement covers all of the business processes associated with buying something. It spans the whole cycle from identifying needs to disposing of the product or completing all the service requirements. Given that broad definition – and the wide range of public activities that are achieved through procurement, or supported by it in some form – procurement is an activity that is critical to the effectiveness and efficiency of public entities.
- 9.2 During 2007/08, an increasing proportion of our work involved consideration of how public entities are going about the business of procurement:
- Annual audit work already involves some examination of procurement processes. During the past two years, we have begun a more in-depth programme to systematically assess the quality of procurement policies and practice as part of that annual work. To date, this work has focused on central government entities, but we intend to expand it to other sectors, including local government, in future years.<sup>1</sup>
  - Our programme of performance audits in recent years has included several projects looking at the management of funding arrangements, whether grants or purchase arrangements. During 2008/09, we are carrying out a performance audit examining procurement practices in three district health boards. We intend to maintain a focus on procurement issues in our performance audits in future years.
  - Most of the work of our Special Assurance Services group involves providing assurance or comment on how major procurement processes are being carried out, in all areas of central and local government.
  - Many of the requests for inquiries that we receive involve procurement processes of some kind. In the local government sector in particular, these requests often relate to major infrastructure or development projects, and result from public concern about how local authorities are making decisions and managing risks for contracts of substantial value. Our work on the early stages of the Dunedin Stadium project was one example.<sup>2</sup> Another was a review of the process for ending a substantial contract for providing regulatory services in Queenstown.<sup>3</sup>
  - In June 2008, we also produced two new good practice guides on procurement, as discussed in paragraphs 10.03 to 10.08. These are available on our

1 The results of the first year of work, in 2006/07, are summarised in *Central government: Results of the 2006/07 audits* (2008), Part 4, “Procurement, grants, and other funding arrangements”, available on our website – [www.oag.govt.nz](http://www.oag.govt.nz).

2 See *Inquiry into Dunedin City Council and Otago Regional Council's funding of the proposed stadium* (September 2007), available on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

3 See *Queenstown Lakes District Council – regulatory and resource management services* (September 2007), available on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

website, and outline our expectations of how all public entities will manage procurement activities in future.

## The two new good practice guides

- 9.3 For public entities, procurement and the different types of funding arrangements can be a very confusing area. There is a complex mix of different organisations involved, types of funding arrangements, and procedural rules and requirements. It is not always clear what rules or expectations apply when. We are often asked questions such as:
- Does it matter whether something is a grant or a contract? If so, what difference does it make?
  - When does a procurement policy apply? Are there any equivalent rules if it does not apply?
  - Should we manage everything as a contract?
  - Should we do anything different if we are contracting with a non-government organisation?
- 9.4 We have therefore updated our 2001 good practice guide on procurement, and reissued it in June 2008 under the title *Procurement guidance for public entities*. At the same time, we produced a new guide entitled *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*.
- 9.5 We use the phrase “funding arrangements with external parties” to cover all types of procurement and purchasing (large and small), grant funding, and gifts. We intend it to include any situation where an entity is handing public money over to someone else in some form to achieve its goals. The “someone else” in this transaction might be a private company, a non-government organisation or charitable trust, an individual, or another public sector organisation.
- 9.6 The new, more general guide explains the range of funding arrangements that public entities commonly enter into, and how to think about which type of arrangement suits a particular circumstance. It provides a funding framework that aims to clarify:
- how the different processes and expectations fit together;
  - what the basic principles are; and
  - what choices public entities need to make when they plan for, and enter into, any funding arrangements with external parties.
- 9.7 The procurement guidance sits underneath that overall funding framework and gives more specific advice and guidance on how to purchase goods and services

and run procurement processes. The main difference from our 2001 guide is that the focus now is on encouraging entities to think strategically – the emphasis is on “doing it smarter” rather than on complying with standard processes or checklists. The guidance now also explicitly acknowledges a much wider range of circumstances than straightforward commercial procurement in a market situation, and recognises that general tendering processes will not always be the best way to manage a purchase.

- 9.8 Tendering will often be a safe and proven way to ensure a fair process and value for money. Much of the guidance is about the detail of how to run an effective and appropriate tendering process. But the guidance also acknowledges that tendering processes can sometimes be counter-productive or involve excessive compliance costs. It encourages public entities to think about their circumstance and to match the process to the practical context. When they do so, however, it is important that they are able to articulate the reasons why they decided to take a different approach. They should also be able to demonstrate how the different approach enabled them to address the basic public sector principles that we list below in paragraph 9.11.

### Two basic questions

- 9.9 In essence, we expect public entities to be able to satisfy themselves and the public on two simple questions:
- Are they spending public money carefully?
  - Are they properly managing the process for spending it?
- 9.10 Spending money carefully involves the ability of the public entity to account for what the money is used for, as well as an assessment of effectiveness, efficiency, and value for money. Properly managing the process for spending money involves looking at whether the public entity makes decisions lawfully and fairly, and in keeping with good administrative practice, ethical requirements, and the entity’s own policies.

### Six basic principles

- 9.11 We have therefore set out six basic principles that we consider relevant to the use of all public funds.
- **Accountability** – public entities should be accountable for their performance and be able to give complete and accurate accounts of how they have used public funds, including funds passed on to others for particular purposes. They should also have suitable governance and management arrangements in place to oversee funding arrangements.

- **Openness** – public entities should be transparent in their administration of funds, both to support accountability and to promote clarity and shared understanding of respective roles and obligations between entities and any external parties entering into funding arrangements.
- **Value for money** – public entities should use resources effectively, economically, and without waste, with due regard for the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve. Where practical, this may involve considering the costs of alternative supply arrangements.
- **Lawfulness** – public entities must act within the law, and meet their legal obligations.
- **Fairness** – public entities have a general public law obligation to act fairly and reasonably. Public entities must be, and must be seen to be, impartial in their decision-making. Public entities may also at times need to consider the imbalance of power in some funding arrangements, and whether it is significant enough to require a different approach to the way they conduct the relationship.
- **Integrity** – anyone who is managing public resources must do so with the utmost integrity. The standards applying to public servants and other public employees are clear, and public entities need to make clear when funding other organisations that they expect similar standards from them.

9.12 The new funding framework explores what these principles mean in practice for a range of different types of funding arrangements and during the life cycle of each of those arrangements.

### Some practical considerations

- 9.13 We have deliberately set out the principles at a high level. They are a starting point, and a reminder of the basic obligations on those spending public money. For any particular public entity or situation, the principles need to be applied flexibly and practically, to achieve the goals of the public entity or of the particular funding arrangement through the most sensible means. We have previously described this as taking a risk-based approach.
- 9.14 For example, the principle of accountability at its simplest means that a public entity has to be able to explain what public money has been used for. For very minor and simple purchases, this may require no more than a receipt for a bottle of milk or a note on the back of a taxi receipt recording the purpose of the travel. For major contracts, much more detail would be needed to reflect the same principle. A new information technology system, for example, would need a fully

developed business case, formally documented approvals at the appropriate level, detailed contracts, ongoing and systematic monitoring of progress under the contracts, and full documentation of the whole procurement process.

9.15 When deciding how to give effect to these principles in any particular situation, public entities should consider:

- **The goal** – it is important for the public entity to focus on what it is trying to achieve. Process should not dominate at the expense of the outcome.
- **Simplicity and proportionality** – the requirements put in place for the funding arrangement should be as simple and practical as possible, considering the amounts involved, the complexity, and the level of risk. It is appropriate to consider compliance costs for the parties, and seek to reduce them where possible.
- **The context** – the arrangements need to fit with the overall context of the funding arrangement, including any more general relationship that the external party has with the entity or with other relevant public sector organisations.
- **The risk** – public entities need to identify risks in or around the funding arrangement and to consider how to manage those risks. This should not be seen as encouragement to be overly risk averse. The key is to get the right balance between risk and expected benefit, and to do so deliberately.
- **The nature of the parties** – the needs and standards of public entities (for example, for accountability or transparency) may be quite different from those that the external party usually encounters. Equally, the external party's needs may be quite different from those of the public entity. For example, a non-government organisation may have unique obligations to constituent groups or members. Relationships are likely to proceed more constructively and effectively if each party understands the needs of the other and the consequences of those needs for them.

### Application to local government

9.16 We developed the previous 2001 guidance with a focus on central government. Although in practice the advice in it was often relevant to local government, in formal terms the 2001 guide stated that it did not apply to that sector. This has changed with the new guidance. We have written it at a level of general principle and practical advice that is equally applicable to central and local government entities. The expectations set out in the new guidance will provide the basis for our future audit and assurance work in all public sector entities.



## Part 10

# Charging fees for goods and services

- 10.1 We published a new guide in June 2008, *Charging fees for public sector goods and services*, to replace our 1989 publication on this topic.
- 10.2 We worked closely with the Regulations Review Committee and the Treasury to produce the guide, which we will use when we review how local authorities set charges.

### What the guide covers

- 10.3 The guide is intended for all public entities that have a legal right to charge a fee for the goods or services that they are obliged to provide. This will include some charges set by local authorities (for example, fees set under the Dog Control Act 1996, which contains detailed provisions about charging fees for dog registration). The guide also covers fees set by local authorities under section 150 of the Local Government Act 2002 for various certificates, authorities, approvals, and permits.
- 10.4 The guide does not apply to contractual payments. A local authority does not need specific permission in legislation when, for example, it hires out a hall or community facility for an afternoon. The local authority is not obliged to provide this service. Instead, it is a simple agreement between the local authority and the individual (even if it is based on a schedule of charges).
- 10.5 The guide does not apply to levies, which are usually charged to a certain group or industry for a particular purpose rather than relating to goods or services provided to an individual. Applicants pay building levies, for example, to the Department of Building and Housing for building consents. The amount of the levy is based on the estimated value of the building work to which the consent relates. It is not based on the cost of providing any building-related services to the applicant.

### Our expectations

- 10.6 The guide sets out our expectation that public entities will set fees in keeping with the following principles:
- **Authority** – the entity must have the legal right to charge a fee for the goods or services that it is legally obliged to provide. The fee must be set within the scope of the provision that gives the entity that right.
  - **Efficiency** – the entity must understand and monitor its costs in providing the goods or services. It has to operate efficiently, and accurately calculate the cost of providing the goods or services.
  - **Accountability** – the entity must ensure that its methods to identify costs and set fees are transparent, and consult with the public where appropriate.

- 10.7 The guide sets out the matters that we expect public entities to consider when calculating the costs of providing goods or services and setting the associated fees.
- 10.8 The starting point is that a fee should be set at no more than the amount needed to recover costs, unless the legislation expressly allows the entity to recover more than its costs. The guide notes that while an entity may be authorised to recover all its costs, sometimes entities deliberately set fees to recover less than the full cost. This is a policy choice for the entity to consider.
- 10.9 For local authorities, sections 101 and 150 of the Local Government Act 2002 provide strong direction for local authorities making funding decisions and setting fees. Section 101 allows local authorities to consider “user pays” aspects in making funding decisions. Section 150 states the general principle that, for fees prescribed by bylaw, cost recovery is limited to no more than the reasonable costs incurred by the local authority in providing the good or service.

## Part 11

# Service performance information

- 11.1 In this Part, we set out our views about the quality of reporting of service performance information, and our intended work in 2009/10.
- 11.2 Service performance information<sup>1</sup> provides primarily non-financial information that records the output delivery performance of a public entity against specified objectives. This information is usually shown in a statement of service performance (SSP) or equivalent report, and is compared with information contained in forecast non-financial performance reports such as a statement of intent (SOI).
- 11.3 In 2008, the Auditor-General reported that overall, in his view, the poor quality of performance reporting by public entities is disappointing and needs to improve significantly.<sup>2</sup> Improving the quality of information about the performance of public sector entities should allow the public sector to demonstrate its accountability and to continuously improve its effectiveness.
- 11.4 The Auditor-General's views were based on our:
- reviews of SOIs of government departments and Crown entities;
  - audits of the 2006-16 Long-Term Council Community Plans (LTCCPs);<sup>3</sup> and
  - performance audit looking at statements of corporate intent and SOIs prepared by council-controlled organisations and council-controlled trading organisations.<sup>4</sup>
- 11.5 The Auditor-General noted in particular that many performance reports by public entities:
- did not set out coherent performance frameworks that showed logical links between the information on medium-term outcomes and organisational strategies and the annual output information (or, for entities preparing an SOI, between the objectives and the performance measures and targets); and
  - lacked well-specified, relevant, understandable, reliable, and comparable performance measures and targets. For local authorities, government departments, and Crown entities, this applied to both the medium-term outcomes-based information and the annual output-based SSP information.

1 For ease of reading, in this Part we use the term "performance information" when referring to service performance information.

2 *The Auditor-General's observations on the quality of performance reporting* (2008) is available on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

3 The Local Government Act 2002 requires the audit opinion on the draft and final LTCCP to report on the extent to which forecast information and proposed performance measures provide an appropriate framework for the meaningful assessment of actual levels of service provision.

4 *Statements of corporate intent: Legislative compliance and performance reporting* (2007), available on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

## Performance reporting by local authorities

- 11.6 All local authorities must have robust performance management frameworks and meaningful levels of service, measures, and targets. Otherwise, it is difficult for ratepayers and the local authority to gain a clear understanding of its performance and effectiveness.
- 11.7 Since 2003, local authorities have used LTCCPs to further refine their performance planning and monitoring practices. This should give the local government sector an advantage over other parts of the public sector when it comes to performance reporting. However, despite having nearly 20 years' experience in preparing and using performance reports, local authority reports often:
- fail to meet external readers' needs, because the performance reports are not as well prepared as they should be;
  - do not work as an effective tool for assessing public accountability, because the reports are not as well used by external readers as they should be; and
  - do not work well as a tool for improving organisational effectiveness, because the reports are not as well used by internal readers (managers and governors of local authorities) as they should be.

## Review of our audit approach

- 11.8 Because we are concerned about the quality of performance information currently provided by public entities, we have been reviewing our own methods and standards for auditing performance information.
- 11.9 Currently, where an entity is required to report at the end of the year on performance against a forecast statement (for example, where an entity prepares an SSP against forecast statements in an SOI), our auditors verify the accuracy of the SSP. For local authorities, the SSP is included in the annual report, and reports against measures in the LTCCP.<sup>5</sup>
- 11.10 Currently, when we consider the “appropriateness” of the information, our existing auditing standard requires the auditor to qualify the audit report only if the performance measures are “fundamentally misleading or senseless”.
- 11.11 To address our concerns we issued a consultation draft of a revised Auditor-General's standard on auditing service performance information (AG-4)<sup>6</sup> in December 2008. We expect that the revised standard will be adopted in mid-2009.

<sup>5</sup> See also Part 2 “Reporting on activities in the annual report”, in this report.

<sup>6</sup> The revised AG-4 is intended to apply to those local authorities, government departments, and Crown entities required to prepare a statement of intent and statement of service performance under the Crown Entities Act 2004. This excludes the audit of service performance reports of other Crown entities (such as tertiary education institutions and those Crown entities required to prepare and report against a statement of corporate intent) whose service performance reporting requirements are governed by other legislation. AG-4 is available on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

- 11.12 Our revised standard on the audit of service performance information will require auditors to report on whether service performance reports:
- provide an adequate basis for assessing service performance; and
  - fairly reflect the entity's service performance.
- 11.13 We intend to apply our revised approach to auditing service performance information to the audit of SSPs in local authority annual reports for the year ending 30 June 2010. This gives enough time for local authorities and our auditors to prepare and adjust to the new standard. The 2009/10 year will also be the first year of operating under the 2009-19 LTCCPs. We consider the appropriateness of the performance framework as part of our LTCCP audit. Assessment of actual performance will be carried out as part of our annual audit work against the first year of the LTCCP forecast in 2009/10.
- 11.14 The 2009-19 LTCCP is an opportunity for local authorities to strengthen their performance information on how their activities affect the community they serve. As we note in Part 2 of this report, this aspect of local authority forecast and actual performance reports needs to improve.
- 11.15 From the 2009/10 audits onwards, we will be applying a new and stronger approach to our audits of performance reports of local authorities, including their reports on the effects of their activities on community well-being and outcomes required by the Local Government Act 2002.



## Part 12

# Liquor licensing by territorial authorities

- 12.1 Under the Sale of Liquor Act 1989 (the Act), each of the 73 territorial authorities (city and district councils) has the status of District Licensing Agency and is responsible for considering applications and issuing licences for the sale and supply of liquor to the public.

### What we looked at

- 12.2 The Auditor-General's interest in the regulatory practices of local government led to a performance audit in 2007 to examine how licensing agencies were managing their liquor licensing responsibilities under the Act.<sup>1</sup> We assessed how 12 licensing agencies were using the powers the Act conferred on them. We were interested to see whether the purpose of the Act – controlling the sale and supply of liquor to reduce alcohol-related harm – was reflected in the systems and processes used by the licensing agencies.
- 12.3 Specifically, we looked at:
- the resources and systems supporting licensing agencies;
  - compliance monitoring by the licensing agencies;
  - the service offered by licensing agencies to applicants, licensees, and the public; and
  - licensing agencies' compliance with the liquor licensing legislation.

### What we found

- 12.4 Overall, we found that licensing agencies were, by and large, doing a good job. However, the audit identified some important areas for improvement.
- 12.5 Our examination of the resources and systems supporting licensing agencies identified the absence of informed and systematic approaches to determining resourcing requirements. We were not satisfied that the time of territorial authority staff allocated to liquor licensing work accurately reflected the full range of tasks associated with carrying out this regulatory function, including active monitoring of licensed premises. We identified a need for licensing agencies to clearly define the scope of their statutory responsibilities under the Act, specify the nature and purpose of activities required to give effect to those responsibilities, and provide the necessary resources to carry out those activities.
- 12.6 To effectively administer the Act, licensing agencies must work closely with the Police and public health services. We found evidence of close, collaborative working relationships. We considered that a formal agreement between the local licensing agency, the police, and the public health services to record the common

<sup>1</sup> Office of the Auditor-General (2007), *Liquor licensing by territorial authorities*, Wellington.

goals, differing roles, and agreed approach to processing applications, sharing information, and pooling resources would help co-ordinate information between the three groups.

- 12.7 In terms of compliance monitoring by licensing agencies, we considered that the Act clearly made licensing agencies responsible not only for issuing liquor licences but also for monitoring and enforcing compliance with licence conditions and the Act. Not all licensing agencies were sufficiently committed to this responsibility. We expected all licensing agencies to consider whether they had enough resources allocated to this work, and to follow active and systematic monitoring strategies.
- 12.8 The customer service that licensing agencies offered to applicants, licensees, and the public was responsive to their needs. We identified some areas for improvement, such as greater use of training and education by licensing agency staff to encourage greater voluntary compliance, the use of target time frames for processing applications, and surveying of licensees to assess their satisfaction with licensing agency service.
- 12.9 Licensing agencies were generally applying the provisions of the liquor licensing legislation consistently. However, licensing agencies were not always using documentation or following procedures that, in our view, clearly complied with the legislation. We considered that this exposed the licensing agencies to risks that the processes leading to decisions, or the validity of those decisions, were open to challenge.
- 12.10 In planning the audit, conducting fieldwork, and drafting our report, we consulted closely with a range of agencies with an interest in liquor licensing. Our findings and the issues we raised for consideration by territorial authorities were widely supported.

### **Follow-up since our report was published**

- 12.11 Our performance audit report was published in November 2007. We are already aware of territorial authorities that have reviewed their liquor licensing practices against the better practice guidance in our report. We have made presentations to territorial authority managers and other stakeholders, setting out the findings from the audit and indicating areas for improvement. Our commentary on the roles and responsibilities of territorial authorities in administering the licensing legislation contributed to the broader national debate in 2008 about the responsible use of alcohol in the community. In August 2008, the Law Commission announced its intention to review the Sale of Liquor Act 1989. This will be a comprehensive review to examine and evaluate the current laws and policies relating to the sale, supply, and consumption of liquor in New Zealand.

- 12.12 Since our report was published, we have worked closely with Local Government New Zealand to identify areas of priority for improving licensing practice, and to co-ordinate initiatives to share and promote guidance for the sector. Local Government New Zealand has provided active support for our work, and we intend to maintain close contact with it on matters relating to our report.
- 12.13 We have encouraged each territorial authority to review its own practices against the framework for better practice outlined in our report. However, we recognise that changes to practices and procedures can take time to consider and put in place. We intend to seek feedback on each territorial authority's response to our report in July 2009.



# Appendix

## Details of non-standard audit reports issued in 2008

These details relate to non-standard audit reports issued during the 2008 calendar year. Where an entity is directly or indirectly controlled by one or more city or district councils, we have listed those councils in brackets.

### Adverse opinions

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

*Financial statements year ended: 30 June 2007*

We disagreed with the Trustees not recognising the museum collection assets of the Trust Board, nor the associated depreciation expense, in the Trust Board's financial statements. These are departures from New Zealand Equivalent to International Accounting Standard 16 (NZ IAS 16): *Property, Plant and Equipment*, which requires all assets to be recognised and depreciated in the financial statements. Our audit was also limited because the Trust Board did not prepare a statement of intent for the year beginning 1 July 2006, as required by the Local Government Act 2002. Therefore, it had not prepared performance information that fairly reflected its service achievements. We also noted a breach of the Local Government Act 2002 because the Trust Board did not prepare a statement of intent for the year beginning 1 July 2007.

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

*Financial statements year ended: 30 June 2008*

We disagreed with the Trustees not recognising the museum collection assets of the Trust Board, nor the associated depreciation expense, in the Trust Board's financial statements. These are departures from New Zealand Equivalent to International Accounting Standard 16 (NZ IAS 16): *Property, Plant and Equipment*, which requires all assets to be recognised and depreciated in the financial statements. Our audit was also limited because the Trust Board did not prepare a statement of intent for the year beginning 1 July 2007, as required by the Local Government Act 2002. Therefore, it had not prepared performance information that fairly reflected its service achievements. We also noted a breach of the Local Government Act 2002 because the Trust Board did not prepare a statement of intent for the year beginning 1 July 2008.

**The Museum of Transport and Technology Board**

*Financial statements year ended: 30 June 2008*

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

**The Canterbury Museum Trust Board**

*Financial statements year ended: 30 June 2008*

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

**Otago Museum Trust Board**

*Financial statements year ended: 30 June 2008*

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

**Far North Regional Museum Trust** (Far North District Council)

*Financial statements year ended: 30 June 2006*

We disagreed with the Trustees not recognising the museum collection assets of the Museum, nor the associated depreciation expense, in the Trust's financial statements. These are departures from Financial Reporting Standard No. 3 (FRS-3): *Accounting for Property, Plant and Equipment*, which requires museum collection assets to be recognised and depreciated in the financial statements. Our audit was also limited because we were unable to verify certain revenue due to limited controls over the receipt of that revenue.

**Hawarden Licensing Trust**

*Financial statements year ended: 31 March 2008*

We disagreed with the Trustees not preparing the financial statements in accordance with New Zealand equivalent to International Financial Reporting Standards (NZ IFRS), as required by the Sale of Liquor Act 1989. Because we were unable to carry out audit procedures to obtain adequate assurance about the effect of NZ IFRS on the Trust's financial statements, we were unable to form an opinion on whether the Trust's financial statements fairly reflected the financial position as at 31 March 2008 and the results of its operations for the year ended 31 March 2008.

**Charleston Goldfields Hall Board**

*Financial statements years ended: 30 June 2006 and 30 June 2007*

We disagreed with the Board not preparing its annual financial statements in accordance with the Public Finance Act 1989, including the requirement that those financial statements be prepared in accordance with generally accepted accounting practice. In addition, we were unable to verify cash receipts due to limited controls over the receipt of that cash revenue. However, the limited financial information presented fairly reflected the Board's assets, liabilities, receipts, and payments.

**Nelson Creek Recreation Reserve Board**

*Financial statements year ended: 30 June 2007*

We disagreed with the Board not preparing annual financial statements in accordance with certain provisions of the Crown Entities Act 2004 and not complying with generally accepted accounting practice for the year ended 30 June 2007. Our audit was limited because we were unable to verify certain revenue due to limited control over the receipt of that revenue. However, the financial statements of the Reserve Board fairly reflected the financial position and cash flows.

## Disclaimers of opinion

### **Kaikoura Enhancement Trust** (Kaikoura District Council)

*Financial statements years ended: 30 June 2003 and 30 June 2004*

We were unable to form an opinion on the financial statements because the financial statements of the Trust for the year ended 30 June 2002 were not audited; therefore, we did not form an opinion about the comparative information or the effect that any misstatement may have on the results for the year ended 30 June 2003. In addition, the financial statements of the Trust for the year ended 30 June 2003 included unaudited figures relating to its associate and there were no satisfactory audit procedures to confirm those figures because the associate was not a public entity and as such, the Auditor-General is not its auditor. We also noted a breach of the Local Government Act 2002 because the Trust did not prepare a statement of intent for the year beginning 1 July 2004.

### **Winton Racecourse Reserve Trustees**

*Statement of accounts for the six years ended: 30 June 2004*

We were unable to form an opinion on the statement of accounts for the six years ended 30 June 2004 because some financial records were lost and no assurance was given over the balances in the statement of accounts. We were unable to verify some revenue because of limited controls over the receipt of that revenue for the six years ended 30 June 2004. We were also unable to form an opinion on the comparative information as it did not fairly reflect all the assets, liabilities and operations of the Racecourse Reserve Trustees. Finally, we noted that the statement of accounts covered a period of six years from 1 July 1998 to 30 June 2004. This is a departure from section 69 of the Reserves Act 1977 which requires an annual statement of accounts to be prepared and submitted to the Auditor-General for audit, within one month after the close of each financial year.

## Except-for opinions

### **Invercargill City Council and group**

*Financial statements years ended: 30 June 2005 and 30 June 2006*

Our audit was limited because:

- the scope of the audit of entities comprising the Bond Contracts Limited group (wholly owned by Invercargill City Holdings Limited) was limited;
- the Board did not provide representations we sought in respect of Bond Contracts Limited;
- the Board did not provide satisfactory evidence to support the adoption of the going concern assumption;
- the fixed assets of Bond Contracts Limited were recorded above recoverable amounts when they should be written down; and
- the scope of the audit of Bond Contracts Limited's subsidiary, Bendigo Construction Limited (previously called Pro Drainage (2003) Limited), was limited because of lack of controls over the completeness of revenue and expenditure from 1 July to 31 December 2004 and the unaudited financial statements for the year ended 30 June 2003 when Bendigo Construction Limited was an associate company of the group.

**Invercargill City Council and group**

*Financial statements years ended: 30 June 2007 and 30 June 2008*

Our audit was limited because:

- the financial information of the Council and group included the unaudited financial information of the Council's associate company, Bond Contracts Limited; and
- the comparative information of Bond Contracts Limited and group for the year ended 30 June 2008 was limited because:
  - the Board did not provide representations we sought in respect of Bond Contracts Limited;
  - the Board did not provide satisfactory evidence to support the adoption of the going concern assumption; and
  - the fixed assets of Bond Contracts Limited were recorded above recoverable amounts when they should be written down.

**Invercargill City Holdings Limited** (Invercargill City Council)

*Financial statements years ended: 30 June 2007 and 30 June 2008*

Our audit was limited because:

- the financial information of the company included the unaudited financial information of the company's associate Bond Contracts Limited; and
- the comparative information of the Council's associate, Bond Contracts Limited and group, for the year ended 30 June 2008 was limited because:
  - the Board did not provide representations we sought in respect of Bond Contracts Limited;
  - the Board did not provide satisfactory evidence to support the adoption of the going concern assumption; and
  - the fixed assets of Bond Contracts Limited were recorded above recoverable amounts when they should be written down.

**Kaikoura Enhancement Trust** (Kaikoura District Council)

*Financial statements year ended: 30 June 2005*

Our audit was limited in respect of comparative information because the financial statements of the Trust's associate were first independently audited for the year ended 30 June 2004. Therefore, we did not form an opinion about the comparative information on the opening balances in the financial position of the Trust as at 1 July 2003. Any misstatement of these opening balances would affect the results for the year ended 30 June 2004. The Trust also did not prepare a statement of intent for the year beginning 1 July 2004 as required by the Local Government Act 2002. Therefore, it had not prepared performance information that fairly reflected its service achievements for the year ended 30 June 2005. We noted a breach of the Local Government Act 2002 because the Trust did not prepare a statement of intent for the year beginning 1 July 2005.

**Kaikoura Enhancement Trust** (Kaikoura District Council)*Financial statements year ended: 30 June 2006*

Our audit was limited because the Trust did not prepare a statement of intent for the year beginning 1 July 2005 as required by the Local Government Act 2002. Therefore, it had not prepared performance information that fairly reflected its service achievements. In our opinion, the financial statements fairly reflected the financial position, the results of its operations and cash flows for the year ended 30 June 2006. We noted a breach of the Local Government Act 2002 because the Trust did not prepare a statement of intent for the year beginning 1 July 2006.

**Aurora Energy Limited** (Dunedin City Council)*Financial statements year ended: 30 June 2008*

We disagreed with the company's treatment of a deferred taxation adjustment in the financial statements for the year ended 30 June 2007 which did not comply with the requirements of the New Zealand Equivalent to International Accounting Standard 12 (NZ IAS 12): *Income Taxes*. The adjustment affected only the comparative information in the 30 June 2008 financial statements.

**Hawke's Bay Cultural Trust (Incorporated)** (Hastings District Council and Napier City Council)*Financial statements year ended: 30 June 2008*

Our audit was limited in respect of comparative information because the audit opinion on the Trust's financial statements for the year ended 30 June 2007 was qualified on the basis that the valuation of collection assets was not in accordance with Financial Reporting Standard 3: *Accounting for Property, Plant and Equipment*.

**Wanganui Incorporated** (Wanganui District Council)*Financial statements period ended: 30 June 2006*

Our audit was limited because the value of property, plant and equipment vested on establishment on 31 October 2005 was the book value of the vesting organisations, which could not be verified. The vesting organisations had not been previously audited. This is a departure from Financial Reporting Standard 36 (FRS 36): *Accounting for acquisitions resulting in Combinations of Entities or Operations*, which requires vested assets to be initially valued at fair value.

**Wanganui Incorporated** (Wanganui District Council)*Financial statements year ended: 30 June 2007*

Our audit was limited because the value of property, plant and equipment vested on establishment on 31 October 2005 was the book value of the vesting organisations, which could not be verified. This is a departure from New Zealand Equivalent to International Financial Reporting Standard 3 (NZ IFRS 3): *Business Combinations*, which requires vested assets to be initially valued at fair value.

**Wanganui Incorporated** (Wanganui District Council)*Financial statements year ended: 30 June 2008*

Our audit was limited in respect of comparative information because the value of property, plant and equipment vested on establishment on 31 October 2005 was the book value of the vesting organisations, which could not be verified. This is a departure from New Zealand Equivalent to International Financial Reporting Standard 3 (NZ IFRS 3): *Business Combinations*, which requires vested assets to be valued at fair value. In addition, we were unable to verify the amount of the loss on disposal in respect of these vested assets.

**East Otago Community Sports and Cultural Centre Trust** (Dunedin City Council)*Financial statements year ended: 30 June 2008*

Our audit was limited because we were unable to verify certain revenue due to limited controls over that revenue.

**Tauranga City Venues Limited***Financial statements year ended: 30 June 2008*

Our audit was limited because we were unable to verify certain revenue due to limited controls over that revenue.

**Mapiu Domain Board***Financial statements year ended: 30 June 2006*

We disagreed with the Board not complying with section 41(2)(k) of the Public Finance Act 1989 because it did not provide budgeted figures in the Statement of Financial Position for the year.

**Electra Limited***Financial statements year ended: 31 March 2008*

Our audit was limited because we were unable to verify the completeness and accuracy of recorded faults and Installation Control Point (ICP) data in the performance information reported because there were limited controls over that data.

**Innovative Waste Kaikoura Limited** (Kaikoura District Council)*Financial statements year ended: 30 June 2007*

Our audit was limited because the Board of Directors did not prepare a statement of intent for the year beginning 1 July 2006 as required by the Local Government Act 2002 and therefore did not prepare a statement of performance that gave a true and fair view of its service achievements. However, the financial statements of the company gave a true and fair view of the financial position, results of its operations, and cash flows.

**The Southern Rural Fire Authority***Financial statements year ended: 30 June 2007*

Our audit was limited because the Authority did not prepare a statement of intent for the year beginning 1 July 2006 as required by the Local Government Act 2002 and, therefore, was unable to prepare performance information that reflected its achievements measured against its performance targets.

**Ruapehu-Wanganui-Rangitikei Economic Development Trust** (Ruapehu District Council, Wanganui District Council, Rangitikei District Council)

*Financial statements year ended: 30 June 2007*

Our audit was limited because the Trustees did not prepare a statement of intent for the year beginning 1 July 2006 as required by the Local Government Act 2002 and therefore was unable to prepare performance information that reflected its achievements measured against its performance targets.

**Pemberton Construction Limited** (Waikato District Council)

*Financial statements year ended: 30 June 2008*

Our audit was limited because the company did not prepare a statement of intent for the year beginning 1 July 2007 as required by the Local Government Act 2002 and therefore was unable to prepare performance information that gave a true and fair view of its achievements measured against its performance targets.

**Southland Flood Relief Fund** (Gore District Council)

*Financial statements year ended: 30 June 2007*

Our audit was limited because the Trust did not prepare a statement of intent for the year beginning 1 July 2006 as required by the Local Government Act 2002 and therefore was unable to prepare performance information that gave a true and fair view of its achievements measured against its performance targets. We noted a breach of the Local Government Act 2002 because the Trust did not prepare a statement of intent for the year beginning 1 July 2007.

**Southland Flood Relief Fund** (Gore District Council)

*Financial statements year ended: 30 June 2008*

Our audit was limited because the Trust did not prepare a statement of intent for the year beginning 1 July 2007 as required by the Local Government Act 2002 and therefore was unable to prepare performance information that gave a true and fair view of its achievements measured against its performance targets. We noted a breach of the Local Government Act 2002 because the Trust did not prepare a statement of intent for the year beginning 1 July 2008.

**Crops for Southland Incorporated** (Southland District Council)

*Financial statements year ended: 30 June 2005*

Our audit was limited because the society did not prepare a statement of intent for the year beginning 1 July 2004 as required by the Local Government Act 2002 and therefore was unable to prepare performance information that reflected its achievements measured against its performance targets. We also noted a breach of the Local Government Act 2002 because the society did not prepare a statement of intent for the year beginning 1 July 2005.

**Crops for Southland Incorporated** (Southland District Council)

*Financial statements year ended: 30 June 2006*

Our audit was limited because the society did not prepare a statement of intent for the year beginning 1 July 2005 as required by the Local Government Act 2002 and therefore was unable to prepare performance information that reflected its achievements measured against its performance targets. We also noted a breach of the Local Government Act 2002 because the society did not prepare a statement of intent for the year beginning 1 July 2006.

**Crops for Southland Incorporated** (Southland District Council)*Financial statements year ended: 30 June 2007*

Our audit was limited because the society did not prepare a statement of intent for the year beginning 1 July 2006 as required by the Local Government Act 2002 and therefore was unable to prepare performance information that reflected its achievements measured against its performance targets. We also noted a breach of the Local Government Act 2002 because the society did not prepare a statement of intent for the year beginning 1 July 2007.

**Crops for Southland Incorporated** (Southland District Council)*Financial statements year ended: 30 June 2008*

Our audit was limited because the society did not prepare a statement of intent for the year beginning 1 July 2007 as required by the Local Government Act 2002 and therefore was unable to prepare performance information that reflected its achievements measured against its performance targets. We also noted a breach of the Local Government Act 2002 because the society did not prepare a statement of intent for the year beginning 1 July 2008.

**Auckland Regional Transport Network Limited** (Auckland City Council)*Financial statements year ended: 30 June 2008*

Our audit was limited because the Company failed to compare, in its annual report, the Company's actual performance with its planned performance as outlined in its statement of intent, and explain the variances between the two. This is a requirement of the Local Government Act 2002.

**ARTNL Metro Limited** (Auckland City Council)*Financial statements year ended: 30 June 2008*

Our audit was limited because the Company failed to compare, in its annual report, the Company's actual performance with its planned performance as outlined in its statement of intent, and explain the variances between the two. This is a requirement of the Local Government Act 2002. We also noted the disclosures in the financial statements that referred to the going concern basis had appropriately not been used in preparing the financial statements because the company would be disestablished in the foreseeable future.

**ARTNL Britomart Limited** (Auckland City Council)*Financial statements year ended: 30 June 2008*

Our audit was limited because the Company failed to compare, in its annual report, the Company's actual performance with its planned performance as outlined in its statement of intent, and explain the variances between the two. This is a requirement of the Local Government Act 2002.

**ARTNL Harbour Berths Limited** (Auckland City Council)*Financial statements year ended: 30 June 2008*

Our audit was limited because the Company failed to compare, in its annual report, the Company's actual performance with its planned performance as outlined in its statement of intent, and explain the variances between the two. This is a requirement of the Local Government Act 2002. We also noted the disclosures in the financial statements that referred to the going concern basis had appropriately not been used in preparing the financial statements because the company would be disestablished in the foreseeable future.

## Explanatory paragraphs – emphasis of matter

### **Central Plains Water Trust** (Selwyn District Council)

*Financial statements year ended: 30 June 2008*

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

### **Hawke's Bay Airport Authority** (Hastings District Council and Napier City Council)

*Financial statements year ended: 30 June 2008*

We noted the disclosures in the financial statements that outlined that the financial statements were prepared on a going concern basis, notwithstanding the plan to terminate the Authority and to establish a company to undertake the airport activities.

### **Cup Village NZ Limited**

*Financial statements year ended: 30 June 2008*

We noted the disclosures in the financial statements that the going concern basis had appropriately not been used in preparing the financial statements because the company was likely to be disestablished within the next year.

### **Cup Village 2000 Limited**

*Financial statements year ended: 30 June 2008*

We noted the disclosures in the financial statements that the going concern basis had appropriately not been used in preparing the financial statements because the company was likely to be disestablished within the next year.

### **Far North Developments Limited** (Far North District Council)

*Financial statements year ended: 30 June 2008*

We noted the disclosures in the financial statements that the going concern basis had appropriately not been used in preparing the financial statements because the company was disestablished.

### **Rotorua District Council Sinking Fund Commissioners**

*Financial statements year ended: 30 June 2007*

We noted the disclosures in the financial statements that the going concern basis had appropriately not been used in preparing the financial statements because the Sinking Fund was disestablished on 30 June 2007.

### **Ruapehu District Council Sinking Fund Commissioners**

*Financial statements year ended: 30 June 2008*

We noted the disclosures in the financial statements that the going concern basis had appropriately not been used in preparing the financial statements because the Sinking Fund was disestablished on 30 June 2008.

**Ngā Tapuwae Community Facilities Trust***Financial statements year ended: 30 June 2008*

We noted the disclosures in the financial statements that the going concern basis had appropriately not been used in preparing the financial statements because the Trust would be wound up by December 2008.

**Mackenzie Holdings Limited** (Mackenzie District Council)*Financial statements year ended: 30 June 2007*

We noted the disclosures in the financial statements that the going concern basis had appropriately not been used in preparing the financial statements because the company and its shareholder agreed that the company's operations would not be continued under the current structure.

**Cooks Gardens Trust Board** (Wanganui District Council)*Financial statements years ended: 30 June 2007 and 30 June 2008*

We noted the disclosures in the financial statements that referred to the vesting of some of the Board's assets in the Wanganui District Council.

**Explanatory paragraphs – breaches of law****Buller Holdings Limited** (Buller District Council)*Financial statements year ended: 30 June 2008*

We noted a breach of the Local Government Act 2002 because the company did not adopt a statement of intent for the year ended 30 June 2008. However, we noted that the company had been able to prepare a statement of service performance against the draft version of the statement of intent for 2007-08.

**Ruapehu-Wanganui-Rangitikei Economic Development Trust** (Ruapehu District Council, Wanganui District Council, Rangitikei District Council)*Financial statements year ended: 30 June 2008*

We noted a breach of the Local Government Act 2002 because the Trust did not adopt a statement of intent for the year ended 30 June 2008. However, we noted that the Trust had been able to prepare a statement of service performance against the draft version of the statement of intent for 2007-08.

**Pihama Cemetery Trustees***Financial statements year ended: 31 March 2006*

We noted a breach of the Burial and Cremation Act 1964 because the Cemetery Trustees provided a loan to another local organisation.

**Auckland City Water Limited** (Auckland City Council)*Financial statements year ended: 30 June 2008*

We noted a breach of the Local Government Act 2002 because the company did not prepare a statement of intent for the year beginning 1 July 2007.

**Lakes Leisure Limited** (Queenstown Lakes District Council)*Financial statements year ended: 30 June 2008*

We noted a breach of the Local Government Act 2002 because the company did not deliver to shareholders and report to the public the results of the company's operations within three months of the end of the financial year.

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- Housing New Zealand Corporation: Maintenance of state housing
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