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## SOLGM CONFERENCE 2002

We're demonstrating our ongoing support of SOLGM through our new key sponsorship arrangement. We're also a sponsor of the 2002 conference and hope to see you there next month.



## LOCAL GOVERNMENT SEMINAR SERIES

Thank you to all those staff of councils who attended our recent Local Government Seminar Series. We even had a councillor, which we saw as valuable in enabling elected members to understand some of the key issues that managers grapple with. We appreciate your feedback and will build it into our 2003 series.

## LOCAL GOVERNMENT NEWSLETTER



The auditor's lot at this time of the year is "heads down" and working to finalise audit opinions. While some local authorities are nearing completion, much of our focus is on Council LATEs. However as a result of our Local Government Seminar Series and Councils "balancing their books" a range of issues are becoming apparent. Often they are relevant to most authorities. This newsletter focuses on a number of these particularly accounting for landfills, the definition of affiliated entities and valuation of assets.

We also note two other matters coming across our desk – members' interests and consultation.

Many Councils will be meeting with their audit director over the next couple of months. We would urge Councils to explore and discuss these on-going matters with their auditors.

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## MEMBERS' INTERESTS

Since the last local authority elections, our directors have presented to a number of new Councils on various matters associated with governance, accountability and the audit relationship. The issue of members' interests has always attracted a lot of attention and questions and that is only natural.

It is important individual Councillors are aware of the Act and their own obligations. The Auditor-General through his Office has a pivotal role to play in assisting individual members meet their obligations and is responsible for giving formal exemptions from the provisions of the Act. His powers are to:

- ▲ approve contractual payments by an authority in which a member is concerned or interested that exceed the \$25,000 a year limit
- ▲ grant exemptions or declarations in certain circumstances to allow members to participate in a matter in which they have a pecuniary interest and
- ▲ investigate complaints and, if appropriate, prosecute offences under the Act.

Audit New Zealand is regularly involved as a point of first contact for Councillors making enquiries over their personal circumstances. Our concern is there appears to be an increasing number of problems with Councillors complying with the requirements.

The Office of the Auditor-General has published a useful and highly readable guide [Financial Conflicts of Interest of Members of Governing Bodies](#), and we continue to

recommend all Councillors remain familiar with its advice as well as the Act itself. Some of our observations from recent work include:

- ▲ it's politically embarrassing to an individual Councillor if an interest is overlooked in the course of Council business.
- ▲ A number of members' interests matters are only being raised "after the event"
- ▲ Councillors need to regularly review their business and personal interests in relation to matters coming before Council
- ▲ How financial conflicts are handled once identified is crucial
- ▲ Transactions in which a Councillor is interested may be subject to ongoing consideration by Council and the Councillor's own circumstances could change during that period and need to be reassessed each time the matter comes before Council
- ▲ It is important that the Office of the Auditor-General is consulted and formal advice received from that Office

There is no easy solution, no one answer fits all – other than for Councillors to remain diligent, to recognise that each possible conflict needs to be dealt with on a case by case basis and to seek advice as early as possible prior to any Council discussion or decision on the matter.

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## SEPARATE FUNDS & RESERVES

As part of our 30 June 2002 audit work we will be examining the policies and procedures each local authority has in place to manage its separate funds and reserves. Work will include assessing how the information is utilised by the local authority in its financial decision-making processes, for example, during the Annual Plan process.

The types of separate funds and reserves to be examined cover:

- ▲ Separate rates and rates, by activity, by area of benefit
- ▲ Charges
- ▲ Reserve contributions and developer/subdivider contributions
- ▲ Sinking funds, legislated funds and funds held in trust

As preparatory work for the final auditors' visit we would hope each local authority has relevant fund and reserve information available about each balance. In respect of the separate rates information, each local authority should provide a reconciliation between information in the Rates Debtor Ledger as it applies to each of the general and separate rates to the transactions recorded in the Separate

Rates ledger account in the financial ledger (as required by Section 223F (2) (f) (iii) of the Local Government Act 1974).

Further on Separate Rates, two important developments make the review of this information critical and impact on events that will face local authorities in the future.

### SEPARATE RATES LEVIED BY TERRITORIAL AUTHORITIES FOR REGIONAL COUNCILS

The Local Government (Rating) Act 2002 requires the rates of the regional council to be shown separately on any rates assessment and invoice issued after 1 July 2003. Rates transaction information will include the opening balance, as they affect the regional council in respect of each individual property. For many local authorities this is going to present a particularly curly challenge as it will require, where relevant, the current collecting local authority to identify any outstanding rates due to the regional council in respect of each rating unit as at 1 July 2003.

### SEPARATE RATES FOR FUTURE CAPITAL WORKS.

Recently the Office of the Auditor General obtained a Crown Law Office opinion on the issue of whether local authorities can make and levy a separate rate under the Rating Powers Act 1988 to create an allocated reserve fund to meet a future commitment.

In brief, the Crown Law Office has concluded:

*"... we consider that local authorities can make a separate rate under Section 16 of the Rating Powers Act now to fund future capital works. Any such work would need to be clearly specified and costed and the Council must be committed to proceed with it."*

Specifically, to authorise the making of a separate rate to fund future capital works, the Crown Law Office advises a local authority must:

- ▲ Precisely identify the function, work or service which is to be the subject of the separate rate
- ▲ Have a present need for the raising of the funds and the allocation of those funds to a project ahead of time
- ▲ Carry out a cost/benefit analysis; and
- ▲ Commit itself to the completion of the project and demonstrate this commitment by passing a resolution committing itself to the project before the rate is levied

Our audit review will be particularly interested in any separate rates that involve a significant credit balance that may have arisen as a result of rating in advance for future capital works.

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## VALUATION — INHOUSE

The impact of FRS-3 is starting to be felt. One client approached us over the acceptability of an internal/in-house valuation. The practice of such valuations has grown, particularly in valuing infrastructure assets. We were asked whether the work of their in-house expert was sufficient for reporting and auditing purposes.

FRS-3 does recognise organisations may have people “who possess expert knowledge and experience” in valuing the assets concerned. But the standard does require an **independent valuer** to confirm the appropriateness of the:

- ▲ basis
- ▲ methodology
- ▲ assumptions

of the valuation (paragraphs 7.1(c)(ii) and 7.7).

We understand the logic of using in-house expertise, but our expectation is that independent confirmation would be gained in line with the standard and that our audit teams would confirm the appropriateness of the in-house approach directly with the independent valuer.

## VALUATION — GUIDANCE

More and more guidance is being issued on valuation of infrastructure, buildings and heritage assets. Treasury has issued valuation guidelines for property, plant and equipment in the health and education sectors. Audit New Zealand recently held seminars for our health and tertiary education clients at which the guidelines were more fully explained. ([Click here for the Treasury guidelines.](#))

The National Asset Management Steering (NAMs) group is also updating its valuation publications. Last year NAMs issued the Infrastructure Valuation and Depreciation guidelines which followed hard on the heels of the FRS-3 release. Shortly NAMs will issue technical amendments to guidelines. The amendments will ensure compatibility with the NZ Property Institute Valuation Standard 3 which was introduced earlier this year.

NAMs also expects to issue more substantive supplements to the guidelines early next year. It is envisaged that joint SOLGM/NAMs guidance on valuation of heritage assets can be included in the guidance manual. In the meantime don't forget that there is a discussion paper on heritage assets on our website. ([Click here to access.](#))

Finally, NAMs is also releasing an update to the International Infrastructure Management Manual. This will include details of property assets (i.e. buildings, community facilities etc) that did not previously get much coverage. It will be of particular use for valuations, as there is excellent information on “componentisation” and also ranges of

useful lives for many building components. To order a copy go to [www.ingenium.org.nz](http://www.ingenium.org.nz).

## ACCOUNTING FOR LANDFILLS

Accounting for landfills is proving to be more problematic than first anticipated. The prime area of difficulty continues to be that relating to closure and post-closure costs. Some key points:

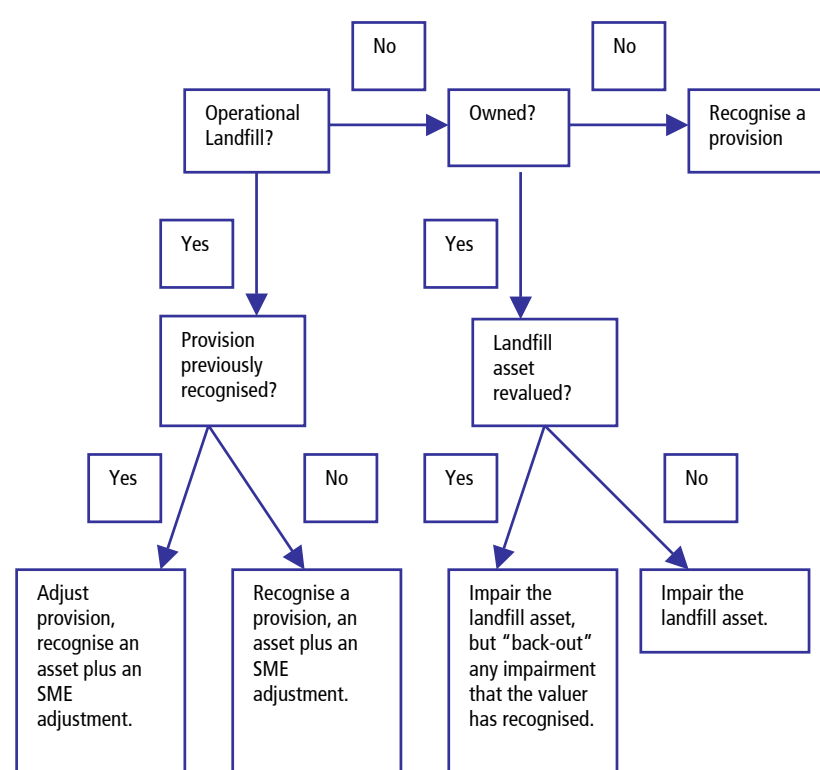
- ▲ Councils must be careful to match the right accounting treatment to each of the different possible scenarios
- ▲ This is not just an FRS-15 related issue. In some cases it becomes an FRS-3 related issue
- ▲ Audit New Zealand has further developed its views on how to calculate the asset for operational landfills. We will still accept an approach based on our earlier advice, but we will now also accept an alternative approach to calculating the asset

Our website features a more detailed article on accounting for landfills, as well as full details on how to calculate the “asset” for an operational landfill. We also cover a range of other landfill issues. ([Click here to view the article.](#))

The following diagram seeks to outline which accounting treatment is to be used for particular scenarios.

**Note:** Where we refer to a “provision” being recognised we are referring to a liability being recognised.

SME = Statement of Movements in Equity



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## CONSULTATION PROCESSES

Just when you thought consultation was already a beast of burden...!

The present version of the Local Government Bill outlines more rigorous and extensive consultation processes than the present Local Government Act requirements. Anecdotally, many Councils have complained they are already “consulted out” or have “consultation fatigue”. How will Councils cope with the new legislative environment?

Increasingly Councils have been coming to Audit New Zealand, asking us to look at whether their consultation processes (usually in relation to a specific proposal) are consistent with the LGA, and with best practice. A very useful starting point in assessing the robustness of consultation is to look at the Auditor-General’s 1998 publication, *Public Consultation and Decision-making in Local Government*. Audit New Zealand has built on this, gathering additional good practice material and lessons from past consultation experiences.

However, with new legislation on the horizon, we felt it important to put even more effort into consultation issues. Audit New Zealand’s research group is undertaking an in-depth study on the principles and good practice for consultation. The study, which is being conducted with academic assistance, draws on overseas local government experience and the latest literature on consultation. We anticipate that, by the time the new Local Government Bill becomes law, Audit New Zealand will be able to proffer effective and practical guidance on consultation.

In parallel to Audit New Zealand’s research study, the National Asset Management Steering Group (NAMs) is looking at consultation from the perspective of agreeing service levels with customers. The NAMs project – called *Creating Customer Value from Community Assets* – will provide guidelines for agreeing and monitoring service levels with customers. The guidelines will be released in two tranches – firstly generic guidelines to be published within the next 2 – 3 months and then specific guidelines for each of six service areas. Audit New Zealand is represented on the project steering group.

Local Government NZ is also putting together legislative implementation groups for the LG Bill. One of the eight groups is looking at consultation. The expected completion date is March 2003.

In summary, by the time the new Act comes into effect, there should be much better information on both the expectations and practical guidance available to Councils on consultation.

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## SOLGM — LEGAL COMPLIANCE PROJECT

This project now has 82 local authority participants and by the end of the year will have released 11 modules in the

form of Good Practice Guides on key Local Government processes.

Modules already released are:

- ▲ Building Consents
- ▲ Property Sales and Acquisitions
- ▲ Procurement and Tendering Resource Consents
- ▲ Land Information Memoranda

In August two further modules will be released:

- ▲ Health and Safety
- ▲ Information Requests and Meetings (LGOIMA)

Four further modules are currently under development for release before the end of the year. These are Employment, Enforcement, Privacy and Liquor Licensing. Each represents a good practice guide to Councils against which they can benchmark their own processes. The modules specifically identify legal obligations and provide practical guidance and advice on identified issues and risks.

These modules are available to participating Local Authorities on the project website at [www.solgm.co.nz](http://www.solgm.co.nz). Audit NZ has been an active supporter and participant in the project with Bede Kearney and Brian Smith from our Christchurch Office part of the initial steering group that got the project underway. We are keen to see that those local authorities participating in the project fully realise the potential benefits from this participation.

In our 2001/02 management reports we will refer to the project and your Council’s participation in it. We will also broadly outline what we see as an effective approach to maximising the benefits from these modules and participation in the project. Throughout 2002/03, we will be interested to note how Councils integrate the modules into their management practice.

**If you would like further information, please contact your audit director or Brian Smith (03) 9613460 or Bede Kearney (03) 9613464**

## FRS-37, THE PUBLIC AUDIT ACT AND AFFILIATED ENTITIES

Councils throughout New Zealand have set up or are affiliated with trusts or incorporated societies covering a very wide range of activities. The passing of the Public Audit Act, and the issuance of FRS-37: *Consolidating Investments in Subsidiaries* have necessitated a relook at whether such entities are “public entities” and also whether they are now viewed as subsidiaries in terms of FRS-37.

The [Public Audit Act](#) (PAA) defines those “public entities” that are to be audited by the Auditor-General. The PAA requires the Auditor-General to audit “the financial

statements, accounts and other information that a public entity is required to have audited" relating to reporting periods after 1 July 2001. This contrasts to the application of FRS-37 for financial reporting purposes. For local government financial reporting, FRS-37 will apply for the 30 June 2003 balance date.

The OAG, with assistance from Audit New Zealand, is currently working through the process of determining any new entities that are public entities under the Public Audit Act. This is happening through appointed auditors working with Councils to identify potential new public entities, and then the appointed auditor providing a "return" (documentation of the details) to the OAG. There is still a substantial amount of work to be completed in respect of this review. However, the process has already identified a large number of "public entities" and also new Council subsidiaries. Types of arrangements that are being caught now but previously were not caught by accounting standards are those that:

- ▲ are an "irreversible mechanism", that
- ▲ provides benefits of a "complementary activity" nature

An irreversible mechanism occurs where, say, a Council sets up a trust where the objects or purposes of the trust cannot be altered. Complementary activities are defined in para. 4.35 of FRS-37.

For governance and accountability reasons, FRS-37 has far reaching effects. It is important that Councils review their arrangements and assess how FRS-37 may affect them.

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## SUSTAINABLE DEVELOPMENT UPDATE

The World Summit on Sustainable Development (WSSD) starts this week in Johannesburg. With Prime Minister Helen Clark attending, SD is likely to be on the national agenda when the summit ends. The Government has already committed to release of a national sustainable development strategy after the summit. For local authorities looking at reflecting SD in their reporting, the pre-release (WSSD) version of the Global Reporting Initiative (GRI) is now online and fully downloadable at [www.globalreporting.org](http://www.globalreporting.org). SD reports prepared from organisations throughout the world are also available at [www.sustainability-reports.com](http://www.sustainability-reports.com). Although mostly private sector, this is where more of the experimentation is happening.

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