

NOVEMBER 2002

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WATER QUALITY

Legislative reform continues in local government with one of those proposed areas being water quality – an emotive issue for local communities and an important measure of local authority performance. In December's issue of Rest Assured we will feature the views of a participant in this area, Judy Williamson, a health protection officer with Crown Public Health.

LOCAL GOVERNMENT NEWSLETTER



This newsletter comes midway through clearance of local authority annual reports. Implementation of FRS-3 *Accounting for Property, Plant & Equipment* has provided some challenges. The sector generally has coped well with the changes, with any issues along the lines discussed prior to the reporting round. This issue does "mop up" one of the areas that has received some media coverage – heritage assets.

With the completion of the 2002 reporting round by end of November, focus will fall on implementation of the Rating Act and dealing with the new Local Government Act. Many authorities are already anticipating the LG Bill's passage and we note some of the feedback received from and given to the sector. We also offer a "heads up" on new consultation techniques and Deputy Auditor-General Kevin Simpkins notes a new initiative in progressing verification of sustainable development reports.

With the impending implementation of two significant new pieces of local government legislation, authorities and their auditors have much to discuss. We would welcome the opportunity to talk these issues over as the current audits are wrapped up and we meet for our annual exit discussions.

Bruce Robertson, Leader, Local Government Sector Group

LOCAL GOVERNMENT BILL FEEDBACK

At our July Local Government Seminar series, we held a working session on the possible implications of the Local Government Bill on Council planning, decision-making and accountability processes. Even though this goes to the heart of some of the more problematic aspects of the Bill – Part 5 – the new Minister has signalled his intention to stay on course with the Bill. It appears the key points on these processes in the Bill will remain.

Our seminars are primarily attended by chief financial officers and their teams. Consequently the working session was very much aimed at their roles within Council as information providers and support staff. The consensus from these sessions is the need for Councils to have sound decision-making structures and processes to:

- ▲ Clearly define outcomes and goals
- ▲ Have available "hard data" with which to plan and make decisions
- ▲ Analyse the data and identify options
- ▲ Meaningfully consult

- ▲ Think and report on a *sustainable* basis

Interestingly the sessions lacked unanimity over the extent of these requirements and whether Councils – and not just financial services divisions – are able to meet these challenges. Individual views ranged from “we do it already” through to “this will put an unreasonable burden on our resources and the ratepayer pocket”.

These views stress the importance of Councils sharing their approaches and results of planning and development of strategies and LTCCPs. It also emphasises the value of such initiatives within the sector as Local Government New Zealand’s *Local Government Know How* programme. The sector is not waiting to see the final form of the Bill. This is in part due to recognition of the time it takes to effectively undertake planning in the open, consultative way prefaced by the proposed Bill. Audit New Zealand directors are already providing comment to a number of Councils and, in at least one case, a group of Councils on a number of aspects – particularly the preparation of an LTCCP.

We believe some of the broad questions that Councils should consider include:

- ▲ What “hard” data and information exists within Council or other agencies to help define community outcomes and priorities?
- ▲ Is there a balance between developing intermediate and longterm outcomes?
- ▲ Is it possible to define “intermediate” and indicative measures to assess the achievement of outcomes?
- ▲ What is the trade off between the “perfect” planning process and getting “quick runs on the board”?
- ▲ How much, if any, preparatory work on community strategies should be done collaboratively with other local authorities, including developing a triennial agreement?
- ▲ Should Council try innovative ways to consult with its community?
- ▲ What specific resources are needed to develop the first strategy and LTCCP?

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PERFORMANCE REPORTING & SUSTAINABLE DEVELOPMENT – OAG

Both the Office of the Auditor-General and Audit New Zealand are continuing to undertake development work in relation to improving performance reporting and integrating sustainable development aspects within enhanced general purpose reporting. The Auditor-General has recently published a landmark report, available online, on [Reporting Public Sector Performance](#).

Some authorities are continuing to develop triple bottom line reporting and others are incorporating some sustainable development outcomes and measures within their existing performance reporting. The OAG is launching a new programme of development to assist local authorities and other entities that are moving forward in these areas. It will soon also start work on the verification of sustainable development measures, whether reported separately or as an integral part of performance reporting generally.

To assist in its work, the OAG has negotiated with Leanne Holdsworth to act as an adviser to it on sustainable development matters. Until mid-September, Leanne worked in the sustainable development area at Audit New Zealand but now has her own business. Leanne will continue to work with Audit New Zealand to enhance its capability and assist in sustainable development reporting verification work. We are delighted to have Leanne working with us in meeting the challenges of enhanced performance reporting and sustainable development reporting.

Kevin Simpkins, Deputy Controller and Auditor-General

Kevin leads the OAG’s Local Government Sector Group

LEAKY HOMES – BUILDING CONSENTS

Councils up and down the country are no doubt exercising their minds about their building consent processes in the light of the leaky homes issue. One action they might like to consider is to compare building consent issuing procedures against industry good practice.

In the SOLGM legal compliance project, in which almost all Councils are participating, the first module to be developed was legal compliance requirements for Building Consents. The module is not just about legal compliance (mainly with the Building Act) but also presents process flow diagrams of all stages of consent activity as well as providing “hot tips” advice. The good practice information is the result of the collective wisdom of Council practitioners. Details can be obtained via www.solgm.co.nz

HERITAGE ASSETS – VALUATION OF MUSEUM COLLECTIONS

Historically most museum collections were either not valued at all or had a nominal valuation attached to them for external reporting. But that has changed with the advent of FRS-3, which became applicable for 30 June 2002 annual reports. FRS-3 requires component-based valuations of all property, plant and equipment, with museum collections falling within its ambit.

We have found a variety of approaches and attitudes to valuing museum collections under FRS-3. While obtaining meaningful valuations can be difficult, it can be done. There is natural concern with the likely costs of obtaining valuations compared to the potential benefits of full component based valuations. Focusing primarily on high value items and applying sampling techniques to the rest of the collection is one way of minimising valuation costs.

Some suggest it is impossible to value many items within these collections because their “value” is inherent in their nature or their history and cannot be expressed in financial terms. However “value” and “valuation” are not the same. The benefits in having comprehensive valuations of museum collections include:

- ▲ *Meeting Accountability Obligations.* Paragraph 4.38 of FRS-3 states that heritage assets, which are held because of their cultural or historical significance, are to be accounted for in accordance with the standard. In our view museum collections fall within this classification.
- ▲ *Enhanced Accountability to Stakeholders.* The valuation of a museum collection will provide stakeholders with an important perspective on the core business of the museum. Valuation will not only be of interest in its own right, it will also provide a relative basis on which to assess the costs, (including depreciation where this is applicable), of maintaining and administering the collection. This is important in assessing the adequacy of funding to manage and maintain the collection.
- ▲ *A Basis for Assisting in the Effective and Efficient Management of Museum Collections.* Valuations provide a basis for assessing the adequacy of expenditure on the physical environment and the security within which these items are maintained. They can also assist in determining relative values of items within the collection and from that, prioritising desired actions in line with overall collection strategies and priorities. This will give

both the funders and managers of museums an enhanced and objective basis on which to allocate the limited resources available.

We consider that identifying and valuing collection assets will provide improved accountability and enhance effective and efficient management of collections.

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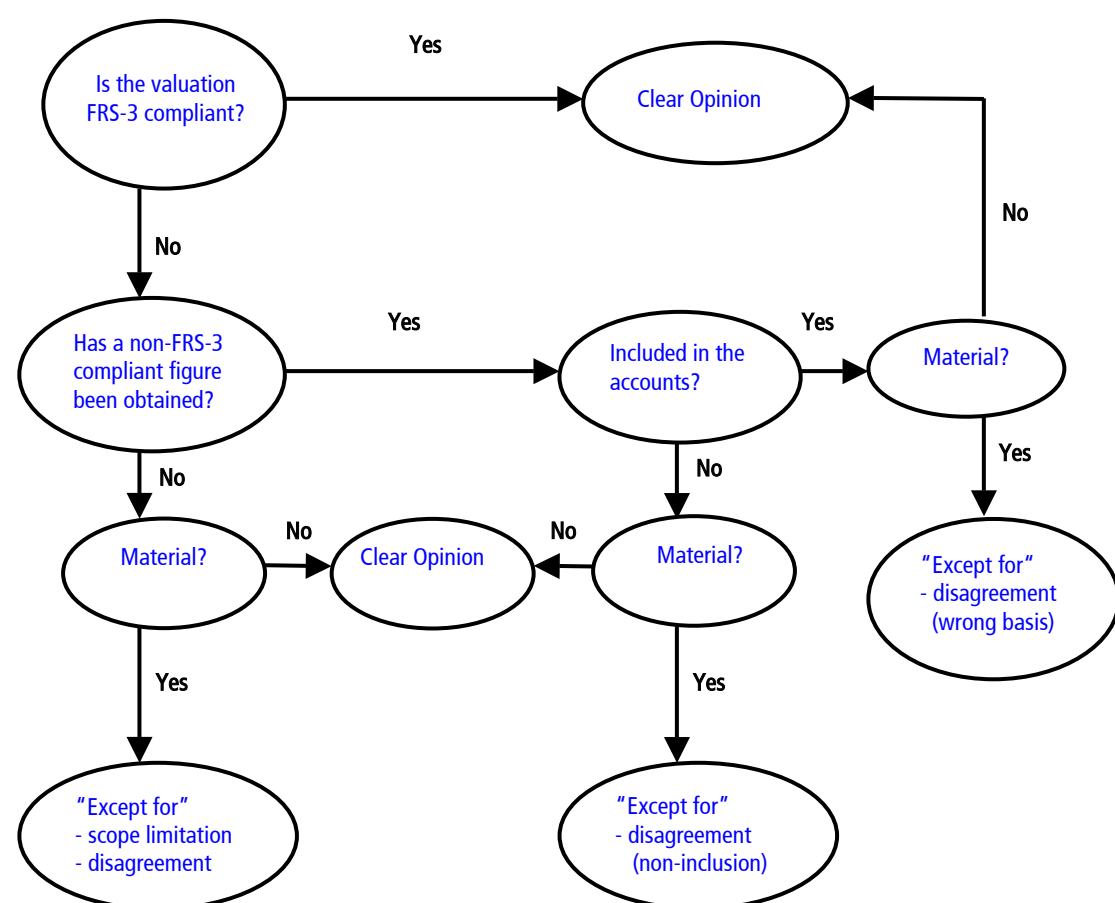
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HERITAGE ASSETS – LOCAL AUTHORITIES An Audit Response

While FRS-3 clearly views heritage assets as part of a local authority’s asset base, some Councils have:

- ▲ Not included heritage assets in the Statement of Financial Position, or
- ▲ Included heritage assets on the basis of a valuation not in accordance with FRS-3

Audit New Zealand has needed to develop a response. The most common situation we encounter is a local authority where a museum, art gallery or rare book collection are part of a Council department or division. We have developed the following audit response. This response contrasts to the less common situation of an entity that primarily exists for the purpose of holding and managing heritage assets and for which different considerations are appropriate.



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FRS-15 – HOW UNCERTAIN IS UNCERTAIN?

A number of recent issues beg the question of how one applies the relatively new accounting standard on provisions and contingent liabilities.

- ▲ At what point should an entity recognise a provision?
- ▲ Should there be contingent liability disclosure?
- ▲ When would other more generic disclosures be appropriate?

FRS-15: *Provisions, Contingent Liabilities and Contingent Assets* is the source of applicable guidance on this issue. Further to the FRS-15 requirements the following scenarios are possible:

Accounting Scenario	Required where ...	Commentary
Recognise a liability	...the amount and timing of the payment is certain	
Recognise a provision	...the amount and timing are uncertain but where: <ul style="list-style-type: none"> – there is a legal or constructive (e.g. moral) obligation – a monetary outflow is probable 	
Disclose a contingent liability	...there is a possible obligation, or ...either the need to provide a monetary outflow is not probable (i.e. greater than 50% probability) or ...a reliable measure of any monetary outflow is not available Furthermore disclosure of a contingent liability is not required if the likelihood of it eventuating is remote unless the quantum of the likely amount is so significant that readers of the financial statements need to know	Reliability: The GAAP expectation is that lack of reliability cannot be an excuse for laziness
Other generic disclosures	... public interest is so high that not to say anything would leave people wondering	
No disclosure	... there is none of the above and where there is absolutely no potential reader interest	

When any potential legal issue arises we recommend that you take initial legal advice to determine where in the above continuum your current situation resides.

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PROBITY REVIEWS OF PROCUREMENT PROCESSES

A growing feature of the contracting scene in local and central government is the use of a probity auditor during a tendering process. Probity has been defined as "integrity, uprightness and honesty" and a probity audit ensures that tendering on procurement activities is transparent and fair.

The stakes in outsourcing are much higher nowadays, with a greater range of services contracted for longer and on a "total performance" basis. This means contracts are of greater value. Add in the prospect of public private partnership initiatives (PPP) and it's clear that Councils and departments want to mitigate legal risks in their tender processes. What is perhaps not as well recognised is that the probity auditor is also a boon to tenderers. They are investing a lot of time and money in complex tenders and they too want to be assured the tender process is fair and above board. The independent probity auditor is the "honest broker" to both parties.

The Australian Independent Commission Against Corruption (ICAC, www.icac.nsw.gov.au) noted that the use of probity auditors has "coincided with the shift by government towards contracting out, privatisation and the increased involvement of the private sector in providing infrastructure".

Audit New Zealand has been at the forefront in developing the probity auditor role in the New Zealand public sector, and is now the probity auditor in many large, complex or sensitive procurements. The audit is real-time (happening alongside the tender milestones) so any issues can be promptly resolved.

If your Council is embarking on a large tender or purchase of goods or services, it may pay to think about a probity audit. ICAC recommended that all Australian public sector agencies should have "probity (auditors) as a prime consideration in all projects". We have some useful background and criteria that should be considered when deciding to use a probity auditor in the New Zealand scene. For this and any other information on probity audits please contact:

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KACHINGO

We have been asked about Audit Office expectations in relation to staff receiving Kachingo tickets from BP when they fill up a work vehicle or purchase other goods at their employer's expense from suppliers participating in Kachingo. Our view is that these tickets offer a "discount" similar to airpoints and other vendor promotion and loyalty

schemes. Therefore Kachingo tickets belong to the entity and should not be retained by the employee. We recommend that local authorities include a policy covering such schemes in their staff Code of Conduct.

RAISING FUNDS FROM THE PUBLIC – RAFFLES

A recent query raised the issue of whether a Council, a community board or a formal committee of a community board can raise funds from the public via a raffle. There is no explicit legal authority within local government legislation to allow a local authority to raise funds from the public in this way.

CONSULTATION PRACTICE

Audit New Zealand recently presented a paper on community consultation at a conference on Managing & Measuring Outcomes-Based Policy in the Public Sector, (Wellington Town Hall, 30 September).

The Local Government Bill leaves no doubt about the continued importance of carrying out consultation in local government. It is interesting that one of the principles of consultation outlined in the Bill requires a local authority to give everyone a reasonable opportunity to make written submissions. While there will always be a place for written submissions and other traditional consultation techniques such as public meetings, new innovative techniques are gaining currency. Research indicates that local authorities in England are increasingly making use of new methods of consultation such as citizens' juries, panel surveys and interactive websites. With the Bill's emphasis on social, economic, environmental and cultural well-being and sustainability, it is likely some of these newer, more deliberative forms of consultation may be just as suitable here. These promote an exchange of information and opportunity for informed consideration over time.

Our paper contains further discussion on consultation trends, management issues and case studies. Contact **Robyn Wells** for a copy of the paper or for further information on (03) 379 8774 or via email robyn.wells@auditnz.govt.nz

Consultation issues are featured strongly in the NAMS (National Asset Management Steering Group) project "Creating Customer Value: Guidelines for Agreeing Services with your Customers". The generic guidelines will be released shortly to participating Councils, followed by more specific guidance in six services areas. Brian Smith from Audit New Zealand is on the steering group for the project. The guidelines contain practical steps for Councils to agree levels of services with their

customers, and will be a great help in ensuring compliance with the Local Government Bill.

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