

AUGUST 2004

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AUDIT NEW ZEALAND SERVICES

As well as offering **AUDIT SERVICES**, we support the local government sector through our:

TAX SERVICES, including compliance reviews and tax position assurance

ASSURANCE over:

- ▲ Capital Projects
- ▲ Governance
- ▲ Information Systems
- ▲ Project Management
- ▲ Tenders

LOCAL GOVERNMENT NEWSLETTER



I am writing this editorial in what is perhaps the lull before the storm. The range of topics in this newsletter reflects the business as usual aspects, but hints at the new requirements and associated responsibilities affecting all of us over the next few years. New LTCCP expectations (full outcomes based, and audited), and the implementation of NZ IFRS, are issues we need to be aware of.

The Auditor-General, and Deputy Auditor-General, have recognised the impending demands, and as part of a series of initiatives, made two key appointments. From July I have assumed the role of Assistant Auditor-General, Local Government. My responsibilities include management of our relationship with Parliament and the audit of all local government entities. I have assumed the role previously undertaken by Deputy Auditor-General, Kevin Simpkins. Possibly the most important initiative is the parallel appointment of my colleague, Ann Webster as Assistant Auditor-General, Local Government Development. Ann will oversee the development of the Audit Office response to key legislative changes in the sector. Understandably her work is currently dominated by developing our response to the requirement to report upon the 2006/07 LTCCP.

Although my role has changed, we (the Office of the Auditor-General – which includes Audit New Zealand) remain as committed as ever to working in partnership to help you meet the new requirements.

Our Office is investing heavily to ensure that all of our staff are fully equipped to handle the new challenges, and to ensure that you are aware, in a timely fashion, of our expectations.

Bruce Robertson
Assistant Auditor-General, Local Government

TE MOTU DISTRICT COUNCIL MODEL ANNUAL REPORT

We have just completed a 2004 update of the financial statement part of the Te Motu District Council model annual report. Both this update and the two previous updates are available on the Audit New Zealand website. www.auditnz.govt.nz

In summary, the various versions are as follows – with explanation of each model's relevance.

Version	Relevance
2000 model annual report update	Useful for guidance on: -Non-financial information disclosures -Other non-financial statement annual report disclosures
2004 "financial statement only" update	This update of the financial statement part of a local authority annual report, reflects the new legislative annual report requirements of the Local Government Act 2002, and is therefore relevant for: <ul style="list-style-type: none"> ▲ 30 June 2004 financial statements for those local authorities that elected to go early (of which there were 9). ▲ 30 June 2005 financial statements for all of the remaining non-early 9 local authorities. It also covers off FRS-36, 37 and 38 disclosure requirements.
2002 "financial statement only" update	For 30 June 2004 the legislative disclosures in this update are still applicable for local authorities that did not choose to comply early with the new LGA 2002 (Local Government Act 2002) requirements. Refer to the 2004 update in respect of FRS-36, 37 and 38 requirements.

Alastair Boulton, (04) 496 3114

Email: alastair.boulton@auditnz.govt.nz

2004 AUDIT PROGRAMME

Asset management planning continues to be a focus for this year's audit. We will be looking at the progress made by you in moving these plans forward to an advanced stage, in anticipation of the requirements of the 2006 LTCCP. As part of the 2004 audit programme you can expect our auditors to also:

- ▲ perform a review of your draft 2004-2014 LTCCP
- ▲ review your 2004-2014 LTCCP summary
- ▲ review your 2006-2016 LTCCP preparation plans
- ▲ ensure compliance with the Local Government Elected Members Determination (2003) in relation to Council aggregate entitlements for Council members and annual salary totals for Office holders.
- ▲ for the 'early nine' we will also audit the contents of the summary (required by section 98(4)(b)) of the Annual Report.

In terms of the summaries, we will be looking for readability and presentation. Additionally, fair coverage of major matters and financial information will be considered.

We will be working to help ensure that the 'early nine' meets the new statutory deadline, and checking to see whether completion statistics for other local authorities improve. The numbers signed in November last year indicate that additional work will need to occur to ensure the new October deadline is met by all in 2005.

Miriam Taris, (07) 577 8218

Email: miriam.taris@auditnz.govt.nz

AUDITING THE FUTURE

Early work that can be done by Councils for the 2006 LTCCPs:

- ▲ Make a stocktake of existing information against the Act's requirements
- ▲ Identify planning assumptions, risks and uncertainties.

It has become evident that the current FRS-29 is inadequate in reflecting the situation with respect to Local Authorities. As a result of this, the OAG has made a submission to ICANZ suggesting that the existing FRS-29 needs to be reviewed and rewritten to reflect the wider range of situations.

Scott Tobin, (03) 961 3463

Email: scott.tobin@auditnz.govt.nz

2004 AUDIT REPORT WORDING

There have been some updates to the wording of the standard audit report for all Local Government Entities. The main differences are:

- ▲ The audit reports uses plain English wording.
- ▲ The type of audit opinion is located "up front" in the audit report.
- ▲ The audit reports, for the nine Local Authorities who elected to report early against their Long Term Council Community Plans in the year ended 30 June 2004, refer to the requirements of Schedule 10 of the Local Government Act 2002.

Richard McGee, (04) 917 1567

Email: richard.mcgee@oag.govt.nz

NZ IFRS

How soon?

Previous advice on LISTSERVE (as per Greg Schollum's LISTSERVE email dated 19 December 2003) is for local authorities to adopt NZ IFRS one year early; i.e., for the 30 June 2007 financial statements. This means that 30 June 2006 financial statements, and the 1 July 2005 opening balance sheet would need to be restated to NZ IFRS GAAP.

The main reason for adopting NZ IFRS early is so that the same basis of GAAP (i.e., NZ IFRS) is used for preparing figures, and disclosures for each of the 10 years in the 2006 LTCCP. Without taking this approach the first year's figures would be under existing NZ GAAP, and the remaining figures would be under NZ IFRS.

When will the full set of NZ FRS standards become available?

Finalising a proposed set of standards is still in progress at the moment. It is likely that the "rule-book" will be available during the next few months.

What are the areas of major impact?

To some extent the devil will lie in the detail but some of the more significant areas – although perhaps only impacting 20% of public sector entities - are:

- ▲ Financial instruments – particularly hedging.
- ▲ Property, plant and equipment – particularly accounting for, and disclosures for re-valued assets.

As has been indicated on page 33 of the recent Report of the Controller and Auditor-General *Local Government Results of the 2002-03* we now understand that the two most problematic property, plant and equipment requirements will be changed in the New Zealand international standard so they are optional for public sector entities.

Office of the Auditor-General support

The Office of the Auditor-General (OAG) is concerned that this change will add to the burden for local government with little additional gain.

The OAG has set a strategy of seeking to minimise the fuss, and maximise the level of sectoral collaboration in order to make the transition as smooth as possible. We are establishing a partnership with one of the Big Four accountancy firms to provide training and support for all of our staff. We will be also be looking to support a proposed SOLGM initiative in respect of NZ IFRS to assist the local government sector.

What should we do?

Our advice at this stage is:

- ▲ Think of the move as a project and plan for it. It is not just a technical accounting exercise. Amongst other things, it will necessitate computer system changes, and you will need to educate stakeholders.
- ▲ Take advantage of sector assistance – you are not alone on this one.

If you have any immediate questions about the move to IFRSs then please contact Alastair Boulton.

Alastair Boulton, (04) 496 3114

Email: alastair.boulton@auditnz.govt.nz

AUDIT NZ SEMINARS

We have decided against having our usual seminars at this time of the year, given the timing of LTCCP preparation, and the lack of a "stable" NZ IFRS platform. At this stage we are looking at having a seminar at the end of 2004 that would be jointly run with SOLGM.

NAMS

The National Asset Management Steering Group (NAMS), an organisation supported by the Office of the Auditor General, has continued to enhance its strategic focus. With the growing quantum of project work being undertaken by NAMS, the organisation recently agreed to adopt a commercial business model approach. This included the appointment of a new full-time chief executive. Peter Dudson was appointed to the position in July 2004. He has a Masters degree in Mechanical Engineering and has experience in project management, marketing and general management.

Two of the larger projects NAMS are currently working on are; 1) development of Optimised Decision Making (ODM) Guidelines; and 2) updated Elective Representative training. The NAMS group has identified the need for guidelines to assist asset managers in improving their asset renewal decision making capability. The ODM guidelines, due for release in September 2004 will provide detailed decision making methodologies that can be used to enhance the efficiency and effectiveness of capital decisions within local government and utilities throughout New Zealand. With respect to the elected representative training, NAMS is working on producing a workshop package, including a video to help newly elected Councillors understand their legislative responsibilities in developing LTCCPs and other policies related to legislation. This will be in a similar format to the "Ride of a Lifetime" Workshop format produced by NAMS in the late 90's and will be available in October 2004 to coincide with the local government elections.

Miriam Taris, (07) 577 8218

Email: miriam.taris@auditnz.govt.nz

TRANSIT ACT ANNUAL REPORT DISCLOSURES

Section 31 of the Transit NZ Act has in past years required local authorities to publish additional information where a local authority had a works business unit and/or in-house professional services. This is illustrated in Note 31 of our model annual report.

Transfund have confirmed that there is no longer a legislative requirement to publish this information in an annual report as of 30 June 2004.

Given that Transfund is likely to introduce its own requirements around this information, we advise you to continue to hold this information.

Alastair Boulton, (04) 496 3114

Email: alastair.boulton@auditnz.govt.nz

LAND UNDER ROADS

Local authorities have previously recognised their land under roads as an asset to comply with FRS-3: *Accounting for Property Plant and Equipment*. Any valuation undertaken to establish, for the first time, an amount for land under roads is not considered a revaluation under FRS-3. Therefore, local authorities may choose not to revalue this class of asset.

As in the past, there is still debate about the correct measurement approach to adopt for land under roads. Until there is clarity about the approach that should be applied, we believe it is advisable on cost/benefit grounds that local authorities do not revalue land under roads.

Alastair Boulton, (04) 496 3114

Email: alastair.boulton@auditnz.govt.nz

LGA 2002, SCHEDULE 10 REMUNERATION DISCLOSURES

Clause 18 of Schedule 10 of the LGA 2002 sets out requirements for disclosures relating to remuneration received by Councillors, and chief executives. For 30 June 2004 this requirement is mandatory only for the "early nine" local authorities that chose to adopt the new legislation early – although there may be other local authorities that are planning to adopt this particular set of disclosures early.

We have received a variety of questions on the disclosures, and as a result have produced a paper that has been placed on our website.

The terms "remuneration" and "non-financial benefits" do not have a legislative definition. In interpreting them, we need to consider the ordinary meanings of those terms and apply our judgment. Also, an accrual approach is required in quantifying the remuneration.

Although the words of clause 18 are paramount in the LGA context, the ED-91 guidance issued by the Institute

of Chartered Accountants provides a useful explanation of what is generally regarded as "remuneration".

In terms of the similar disclosure requirements under clause 19 relating to severance payments (applying to early nine local authorities for 30 June 2004) the following points are worth making:

- ▲ The precise amount paid to each individual employee must be itemised separately, but it is not necessary to break down such payments into their component parts.
- ▲ The employees should not be named.
- ▲ The term "severance payment" is defined to include non-monetary benefits.
- ▲ The term "severance payment" is defined to exclude salary, holiday pay, and superannuation contributions to which the employee was already entitled.
- ▲ The statutory requirement overrides any contrary undertaking of secrecy the authority may have promised.

Alastair Boulton, (04) 496 3114

Email: alastair.boulton@auditnz.govt.nz

AUDIT NEW ZEALAND LOCAL GOVERNMENT DIRECTORS	
Allan Frost	Direct Dial (09) 914 8603 allan.frost@auditnz.govt.nz
Bede Kearney	Direct Dial (03) 961 3464 bede.kearney@auditnz.govt.nz
Ben Halford	Direct Dial (07) 577 8215 ben.halford@auditnz.govt.nz
Francis Caetano	Direct Dial (09) 914 8628 francis.caetano@auditnz.govt.nz
Devan Menon	Direct Dial (03) 961 3443 devan.menon@auditnz.govt.nz
Jo Smail	Direct Dial (09) 914 8623 jo.smail@auditnz.govt.nz
John O'Connell	Direct Dial (04) 496 3156 john.oconnell@auditnz.govt.nz
Karen MacKenzie	Direct Dial (09) 914 8605 karen.mackenzie@auditnz.govt.nz
Ken Boddy	Direct Dial (03) 961 3442 ken.boddy@auditnz.govt.nz
Laurie Desborough	Direct Dial (06) 350 1316 laurie.desborough@auditnz.govt.nz
Miriam Taris	Direct Dial (07) 577 8218 miriam.taris@auditnz.govt.nz
Rudie Tomlinson	Direct Dial (04) 496 3141 rudie.tomlinson@auditnz.govt.nz
Tony Uttley	Direct Dial (04) 496 3109 tony.uttley@auditnz.govt.nz
Richard Briggs	Direct Dial (07) 958 4602 richard.briggs@auditnz.govt.nz
Scott Tobin	Direct Dial (03) 961 3463 scott.tobin@auditnz.govt.nz

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