

Chairperson and Subcommittee Members
AUDIT AND RISK SUBCOMMITTEE

5 MAY 2015

Meeting Status: **Public**

Purpose of Report: For Information

**AUDITOR-GENERAL'S REPORT ON THE RESULTS OF THE
2013/14 AUDITS OF LOCAL AUTHORITIES**

PURPOSE OF REPORT

- 1 To update the Audit and Risk Subcommittee on the key findings of the Office of the Auditor-General (OAG) on the audits of all 2013/14 local authority annual reports.

DELEGATION

- 2 The Audit and Risk Subcommittee has delegated authority to consider this report under the following delegation in the Governance Structure, Section C.3.7 – *Internal Reporting*
 - 7.4 *To review the processes for ensuring the completeness and quality of financial and operational information, including performance measures, being provided to Council.*

BACKGROUND

- 3 Each year, the OAG issues a public report on its audits of local authority annual reports. The report addresses the performance of local authorities as a whole, and any key findings with regard to statutory compliance and best practice. It also highlights significant trends, especially adverse ones which may have significant impacts now or in the future.
- 4 The report by the OAG is a useful resource which helps to ensure that local authorities are accountable for their performance, while at the same time drawing attention to potential emerging issues.

CONSIDERATIONS

- 5 The report summarises the key findings of the OAG's report on the 2013/14 annual reports of local authorities, and notes this Council's performance in relation to the key findings.
- 6 The report is analysed under the following four headings:
 - Governance;
 - Financial results and trends;
 - Timeliness in annual reporting;
 - Audit reports issued in 2014.
- 7 The full report from the OAG is attached as Appendix 1 to this report.

Governance

- 8 The table below summarises the key points raised with regard to local authorities' governance. No issues were raised by Ernst and Young¹² following its audit of Council's 2013/14 Annual Report.

OAG's concerns in relation to all local authorities	Responses by Kāpiti Coast District Council / matters for action going forward
Non-compliant rating practices ranging from potentially serious legislative breaches, such as failure to adopt a long-term plan or to include all rates in its resolutions, to "technical breaches", such as rating information not being included in the funding impact statement.	<p>As recommended by the OAG, Council undertook a rates review and the results were reported to Council as part of the adoption of the 2014/15 Annual Plan.</p> <p>Ernst and Young assessed the rates strikes for 2013/14 and 2014/15 against the key elements of the legislative framework associated with the Rating Act and Local Government Act and noted an improvement in the 2014/15 rates strike and associated funding impact statement as a result of findings identified in 2013.</p>
<p>Asset management, especially:</p> <ul style="list-style-type: none"> • long-term planning; • underspend of capital works against forecast (see <i>Financial results and trends</i> below). 	<p>Recent amendments to the Local Government Act 2002 now require all local authorities to prepare a 30-year infrastructure strategy in their long-term plans.</p> <p>Accordingly Council has prepared a 30-year infrastructure strategy as part of its draft 2015/35 Long Term Plan.</p>
Absence, or ineffectiveness ³ of, audit committees.	<ul style="list-style-type: none"> • Council has amended its Governance Structure in relation to the Audit and Risk Subcommittee to align it with OAG guidelines; and • Council is in the process of appointing an independent member with financial expertise to its Audit and Risk Subcommittee.
Health and safety reform	The Audit and Risk Subcommittee will continue to monitor Health and Safety compliance on a quarterly basis or more frequently if required.

¹ Kāpiti Coast District Council's auditor – allocated by the Auditor-General.

² The external auditor does not have a specific role to play in ensuring legal compliance in health and safety matters.

³ The OAG describes effective committees as 'usually consisting of 4-6 members, having an independent chairperson, and having some independent members with a good balance of skills and expertise, and all members are willing to challenge and question.'

OAG's concerns in relation to all local authorities	Responses by Kāpiti Coast District Council / matters for action going forward
Conflicts of interest	The Council has followed OAG advice and requested all Elected Members to make a written declaration of their personal and financial interests that may at times conflict with their roles. This information is kept in the Register of Interests which is updated every six months.

Financial results and trends

- 9 The table below summarises the key points raised by the OAG in its analysis of financial results and trends.

OAG's specific concern in relation to all local authorities	Kāpiti Coast District Council's performance in relation to OAG concern
2.4% increase in the total revenue of all local authorities combined (excluding Auckland), between 2012/13 and 2013/14.	5.3% (\$3.6 million) increase ; this largely comprises ⁴ : <ul style="list-style-type: none"> the budgeted 5% rates increase - \$2.4 million (see below); and a one-off re-imburement of property holding costs from NZTA - \$1.7 million.
4% increase in the total rates collected by all local authorities combined (including Auckland), between 2012/13 and 2013/14.	5.0% increase – the approved 2013/14 Annual Plan budget represented a 5.2% increase on 2012/13 actual rates collected.
3% increase in the total expenditure of local authorities combined (excluding Auckland), between 2012/13 and 2013/14.	12.3% (\$7.6 million) increase ; the approved 2013/14 Annual Plan budget represented an 8.1% increase on the 2012/13 actual expenditure. The main reasons that expenditure was ahead of budget in 2013/14 was: <ul style="list-style-type: none"> higher than budgeted depreciation and amortisation due to faster completion of some capital works, and increased provisions for trade debt, rate arrears and potential weather-tight building claims.
74% of capex budget spent by the combined local authorities in 2013/14.	79% of capex budget spent – Council approved a deliberate reduction to the planned capital expenditure programme.

⁴ The sum of the two main items disclosed does not equal the total \$3.6 million increase due to the omission of a number of smaller items totalling \$0.5 million (reduction).

OAG's specific concern in relation to all local authorities	Kāpiti Coast District Council's performance in relation to OAG concern								
<p>The combined local authorities "renewals / depreciation gap" (the difference between renewals expenditure and depreciation) is estimated to be \$6-7 billion by 2022.</p> <p>The key OAG concern is that there is <u>not</u> adequate financial provision for local authorities to renew key infrastructural and operating assets in the future.</p>	<p>Council's 2013/14 Annual Report shows that its capital expenditure on the five network infrastructure services significantly exceeds depreciation on those five services which the OAG considers to be a strong indication that the asset (and therefore the service) is sustainable.</p> <p>Furthermore, Council's asset management plans include condition assessments so that Council knows the state of its assets and therefore, when renewals are required.</p> <p>Council is not deferring renewals, except where it has identified that their condition is still acceptable.</p> <p>The Council has a relatively young asset base with most of its assets built since the 1970's, therefore its renewals profile does not materially increase until 2040 and beyond.</p>								
<p>5% - the level of debt as a proportion of total assets.</p> <p>Debt remains low, and is expected to continue to do so as Councils focus on managing their debt.</p>	<p>9.1% - the level of debt as a proportion of total assets.</p> <p>Council's current debt is largely a result of the recent capital projects for new assets, for example, the Coastlands Aquatic Centre, the Civic Building upgrade and the Water Supply Project.</p> <p>The capital expenditure programme in coming years is materially lower, with debt planned to reduce over the course of the 2015/2035 Long Term Plan.</p> <p>The Council is operating within borrowing the limits of its Treasury Management Policy, as given below.</p> <table border="1" data-bbox="801 1503 1434 1861"> <thead> <tr> <th data-bbox="801 1503 1225 1597">Item</th> <th data-bbox="1225 1503 1434 1597">Borrowing Limit</th> </tr> </thead> <tbody> <tr> <td data-bbox="801 1597 1225 1691">Net interest expense over total operating income</td> <td data-bbox="1225 1597 1434 1691">< 20%</td> </tr> <tr> <td data-bbox="801 1691 1225 1785">Net external debt divided by operating income</td> <td data-bbox="1225 1691 1434 1785">< 240%</td> </tr> <tr> <td data-bbox="801 1785 1225 1861">Liquidity</td> <td data-bbox="1225 1785 1434 1861">> 110%</td> </tr> </tbody> </table>	Item	Borrowing Limit	Net interest expense over total operating income	< 20%	Net external debt divided by operating income	< 240%	Liquidity	> 110%
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Timeliness in annual reporting

- 10 The table below summarises statutory compliance with regard to the adoption and publication of annual reports.

OAG's specific concern in relation to all local authorities	Kāpiti Coast District Council's performance in relation to OAG concern	Responses by Kāpiti Coast District Council / matters for action going forward
75 out of 78 local authorities adopted their annual reports within 4 months of year-end. The OAG concern is that reports should be published earlier because "for communities to assess performance effectively, the information must be timely."	Council adopted its annual report on 16 October, which is consistent with previous years.	Compliant but Council working to bring forward adoption date of future annual reports, starting in 2015/16.
77 out of 78 local authorities released their annual report within 1 month of adopting it.	Council released its annual report to the public on 11 November ⁵ .	
71 out of 78 local authorities released their summary annual report within 1 month of adopting it.	Council released its summary annual report on 11 November.	

Audit reports issued in 2014

- 11 The Auditor-General issued 567 audit reports on local government entities and licensing trusts in 2014. Of the 567 reports, 505 were standard audit reports and 62 were non-standard audit reports.
- 12 Kāpiti Coast District Council received a standard "clean" audit report.

Financial Considerations

- 13 There are no financial considerations.

Legal Considerations

- 14 There are no legal considerations at this time.

Policy Implications

- 15 There are no policy implications to be considered.

Tāngata Whenua Considerations

- 16 There are no tāngata whenua considerations.

⁵ The full audited annual report was available on Council's website on 4 November.

Publicity Considerations

17 There are no publicity considerations at this stage.

SIGNIFICANCE AND ENGAGEMENT

18 This matter has a low level of significance under the Council Policy.

RECOMMENDATIONS

19 That the Audit and Risk Subcommittee note the matters raised by the Office of the Auditor-General in its report on the 'Results of the 2013/14 Audits'.

Report prepared by:

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APPENDICES

Appendix 1: Local Government: Results of the 2013/14 audits