

**Chairperson and Subcommittee Members**  
AUDIT AND RISK SUBCOMMITTEE

19 SEPTEMBER 2013

Meeting Status: **Public**

Purpose of Report: For Information

**AUDITOR GENERAL'S REPORT TO PARLIAMENT ON THE RESULTS OF THE 2011/12 AUDITS**

**PURPOSE OF REPORT**

- 1 To report to the Audit and Risk Subcommittee on the Auditor General Report to Parliament on matters arising from the results of the 2011/12 Audits.

**SIGNIFICANCE OF DECISION**

- 2 The Council's significance policy is not triggered by the report.

**BACKGROUND**

- 3 The Auditor General reports to Parliament on its various audit processes each year and has presented a report on matters arising from the results of the 2011/12 Audits of Local Government.

**CONSIDERATIONS**

**Issues**

- 4 This report covers the following topics as identified in the Office of the Auditor General's (OAG) report and the implications for this Council.
  - Timeliness in annual reporting.
  - Financial results in local authorities' 2011/12 annual reports.
  - Using financial statements to understand financial performance.
  - Changes to annual reports and financial reporting.
  - Reducing and managing greenhouse gas emissions.
  - Managing leaky building liabilities.

Timeliness in annual reporting

- 5 All Councils are required to adopt their audited Annual Reports by 31 October each year. The Kapiti Coast District Council adopted its 2011/12 Annual Report on 4 October 2012 with a clear audit opinion.

Financial results in local authorities' 2011/12 annual reports

- 6 The OAG noted that rates make up 55% of the operating expenditure of local authorities on average. Kāpiti Coast District Council rates make up 77% of the operating revenue so this Council has a higher dependency on rates than the average Council.
- 7 Within the detail of the report, Kāpiti Coast District Council is mentioned on one occasion along with other Councils who borrowed less than budgeted due to less capital expenditure being incurred than budgeted.
- 8 The national capital underspend was 26% compared to the Kāpiti Coast District Council's expenditure carried forward of 21.9%.

- 9 Key Issue covered in the Auditor General in the report is as follows (page 17 clause 3.13):

*“Debt – Conversely, some local authorities borrowed less because of lower capital expenditure during the year and rescheduling or reprioritising projects. Some larger local authorities - Greater Wellington Regional Council, Hamilton City Council, Kāpiti Coast District Council, Marlborough District Council, Nelson City Council, New Plymouth District Council, Palmerston North City Council and Queenstown-Lakes District Council – collectively took out \$245 million less debt than budgeted.”*

#### Using financial statements to understand financial performance

- 10 The OAG has developed a set of indicators that have been applied to financial data in local authorities’ annual reports to better understand financial performance and also their analysis of the potential for financial uncertainty and risk in local authorities.
- 11 The OAG has concluded that positively, local authorities are showing improvements in their capabilities to plan, budget and deliver the financial resources required to meet their service delivery objectives. Operationally, the local government sector remains strong in this aspect. Debt levels have remained within a reasonable range. Local authorities’ ability to service that debt is also strong and consistent throughout the sector. The indicators of long-term sustainability are all within a reasonable range, implying some robustness in the capability to manage longer-term uncertainties.
- 12 Using these sets of indicators on the 2011/12 Annual Reports the Auditor General concluded that local authorities are operating sustainably and appear to be resilient to short term uncertainties and are improving the accuracy of delivering against their forecasting.
- 13 The OAG will continue to assess local authorities’ financial performance through a set of indicators and the comparison of actual performance against that budgeted will continue to add valuable insight in the financial performance and risks in the local government sector.

#### Changes to annual reports and financial reporting

- 14 The changes to the 2012/13 Annual Reports include information required by the Transparency, Accountability and Financial Management (TAFM) amendments. In 2012 the Act was amended again as part of the reform of local government to include some other reporting requirements. These requirements include:
- a funding impact statement for each group of activities compared to what was budgeted in the long-term plan, and a funding impact statement for the whole of the local authority compared to the previous financial year, which must be presented in the format set out in the Local Government (Financial Reporting) Regulations 2011;
  - for each group of activities, a statement comparing budgeted capital expenditure with the amount spent to meet additional demand, improve services, and replace assets;
  - for each group of activities, a statement about internal borrowing, including amounts borrowed and repaid during the year and interest paid;
  - information about the purpose and activities of each reserve fund set aside by the local authority, and financial information about each fund; and

- a report on the number of employees in different pay bands.
- 15 Also there have been strategic changes to the financial reporting framework. The External Reporting Board (XRB) has been responsible for preparing and setting the standards for financial reporting since 1 July 2011. The strategy that they have been working towards distinguishes three classes of entities:
- for profit entities in the public and private sectors;
  - public benefit entities in the public sector; and
  - public benefit entities in the not-for-profit sector.
- 16 This new financial reporting framework will affect how public entities in the public sector report. Depending on the nature and size they can report under one of four categories.
- 17 The categories for public benefit entities in the public sector are:
- full reporting (tier 1);
  - reduced disclosure reporting (tier 2);
  - simple format accrual reporting (tier 3); and
  - simple format cash reporting (tier 4).
- 18 The size criteria for allocating public benefit entities in the public sector to tiers are:
- tier 1 – operating expenditure of more than \$30 million;
  - tier 2 – operating expenditure between \$2 million and \$30 million;
  - tier 3 – operating expenditure of less than \$2 million; and
  - tier 4 – only if permitted by legislation (expected to be for small entities).
- 19 Clearly this Council is a tier 1 Council and will be required to provide full reporting under the new standards once set.
- 20 The XRB has set up a sub-board called the New Zealand Accounting Standards Board (NZASB). This NZASB is preparing the financial reporting standards that will be used when the new financial reporting framework is fully operational.
- 21 It is proposed that the new financial reporting standards will apply for reporting periods beginning on or after 1 July 2014.
- 22 The Audit & Risk Subcommittee will be kept informed of the changes to the Financial Reporting Standards as they take shape.

Reducing and managing greenhouse gas emissions

- 23 Kāpiti Coast District Council, along with around a third of local authorities, measures its greenhouse gas emissions and this Council has plans to continue to reduce those greenhouse emissions. The Kāpiti Coast District Council is the first Council in the Country to gain admission to the prestigious Carbon Emissions Measurement and Reduction Scheme (CEMARS). CEMARS is run by Landcare Research and recognises organisations that can independently verify they have measured and reduced greenhouse gas emissions. Council has calculated its corporate carbon footprint using the internationally recognised ISO 14064 standard and adopted an emissions management and reduction plan for the organisation. This Council is planning and working towards achieving the planned target of a 45% reduction in operational emissions in 2014/15, compared to the baseline year of 2009/10.

Managing leaky building liabilities

- 24 This Council's exposure to leaky building liabilities is relatively low compared to some other local authorities. The Council's exposure has generally been able to be funded from Councils insurance cover and from Council's contingency fund although this is subject to the timing of the settlement of the claims.

## Financial Considerations

- 25 The financial considerations are covered in this report.

## Legal Considerations

- 26 There are no legal issues.

## Delegation

- 27 The Audit and Risk Subcommittee may make a decision under the following delegation in the Governance Structure, Section C.4.6:

*Without limiting the generality of this delegation the Subcommittee has the following functions, duties and powers:*

*Internal Reporting*

- 6.4 *To review the processes for ensuring the completeness and quality of financial and operational information, including performance measures, being provided to Council.*

## Consultations

- 28 There is no need to consult on the issues raised.

## Policy Implications

- 29 There are no policy implications to be considered.

## Tāngata Whenua Considerations

- 30 There are no issues for consideration relating to iwi.

## Publicity Considerations

- 31 There are no publicity issues to be considered at this stage.

## RECOMMENDATIONS

- 32 That the Audit and Risk Subcommittee note the matters raised in the Office of the Auditor General Parliamentary Report on the 'Results of the 2011/12 Audits'.

### Report prepared by:

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Appendix 1 – Office of the Auditor General Parliamentary Report on 'Results of the 2011/12 Audits'.