Local government: Results of the 2015/16 audits
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Local government: Results of the 2015/16 audits

Presented to the House of Representatives under section 20 of the Public Audit Act 2001.

April 2017
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Tēnā koutou.

I am pleased to present the results of the 2015/16 local government audits. As this is published, local authorities are starting to prepare their 2018-28 long-term plans and infrastructure strategies.

When preparing these documents, local authorities need to think carefully about how they intend to strike the right balance between being cost-effective, as required by the Local Government Act 2002, and delivering services to their communities now and in the future.

Investing in infrastructure needs careful thought

Local authorities continue to report a low level of capital expenditure on renewals compared to depreciation expenditure. Depreciation represents each local authority’s best estimate of the portion of assets that it has used up during the period. Renewal capital expenditure represents the extent to which the portion of the assets used has been reinstated.

Any significant shortfall in reinvestment, particularly for multiple years, can indicate that a local authority’s assets are being run down. This can highlight whether local authorities are investing enough to maintain their existing infrastructure.

Furthermore, local authorities are carrying out substantially less capital work than budgeted. This indicates that local authorities might be underinvesting in their assets.

Each local authority’s circumstances are unique. We encourage each local authority to consider whether it is underinvesting in its assets and, if so, the likely effect of that underinvestment on service levels.

I expect individual local authorities to have a comprehensive understanding of their critical assets and the cost of adequately maintaining them, and to periodically renew components reaching the end of their useful lives. Elected members need this information to make deliberate decisions about how to manage the assets they govern. Only then can they have meaningful conversations with their communities about how to fund the reinvestment in assets or the consequences of not doing so.

Auditors will look at forecasts of depreciation and renewals, along with funding strategies, of local authorities during the audit of the 2018-28 long-term plans.
Prioritising communication with communities and stakeholders

Most local authorities, their subsidiaries, and related organisations received an unmodified audit opinion on their 2015/16 financial statements. This means that most communities and stakeholders are receiving information that they can rely on. Only 4.9% of the annual audit reports issued in 2016 contained modified opinions, meaning that either we disagreed with how the organisation reported information or we could not get the supporting information we needed.

Seventy-six local authorities met the statutory deadline for adopting their annual report. However, the decrease in local authorities making their audited annual report and summary annual report available to the public in a timely manner and within the statutory deadline is of concern.

It is important that ratepayers and communities receive timely information. A delay undermines effective accountability, which in turn undermines communities’ continued trust and confidence in their local authority. I expect all local authorities to set up strong and effective systems for reporting on their performance and to have effective project management processes to meet statutory deadlines for accountability documents.

Local authorities had to consider how they would respond to changes made in 2014 to the Local Government Act 2002 about consulting on their 2016/17 annual plans. These changes were part of measures to enable more efficient and focused consultation on long-term plans and annual plans. Local authorities are now required to consult on annual plans only if they propose significant changes from their long-term plans.

We commend those local authorities that looked for new ways to engage with their community and had conversations with their community about their 2016/17 plans before finalising them.

Getting it right

Elected members are ultimately responsible for “getting it right” when it comes to what the local authority does and how it does it. This means that elected members should ask appropriate questions and be satisfied that their local authority has appropriate policies and practices in place.

A local authority’s power to set rates is essentially the power to tax people for the costs of the services the local authority provides. A recent High Court decision highlighted the importance of getting it right when setting rates. Although setting rates can be complex, it is concerning that some local authorities are not meeting best practice. Local authorities are responsible for ensuring that they comply with their legal and accountability obligations.
Other work in the local government sector that we have completed in the last year, such as examining the Canterbury rebuild and our review of service performance for Auckland Council, highlight some important lessons, including the need for good project monitoring and governance. During this work, we noted that getting the basics right is not achieved consistently.

Looking ahead

Although the focus of this report is on the 2015/16 audits, it outlines important messages about what I intend to monitor throughout my term. My staff and I look forward to working with local authorities in the years ahead.

Nāku noa, nā,

Martin Matthews  
Controller and Auditor-General  
4 April 2017
1 Financial results and trends

1.1 In this Part, we consider local authorities’ financial results for 2015/16.\(^1\) We were particularly interested in how local authorities performed compared to what they planned and budgeted for in the first year of their 2015-25 long-term plans.

1.2 In completing our analysis, we wanted to answer the following questions:
- Did local authorities spend what they planned to on their operations?
- Are local authorities maintaining their budget commitments to invest in their assets?
- Are local authorities adequately reinvesting in their assets?
- What are the revenue trends?
- Did local authorities prudently manage their debt?

1.3 We do not expect local authorities to achieve their budgets exactly, and there can be many reasons why an entity might not do what it plans to. For the purposes of our analysis, we consider a local authority to have reasonably achieved its budget if the performance was between 80% and 125% of the budget.

1.4 Unless otherwise noted, we have used the parent-only results of local authorities except Auckland Council. For Auckland Council, we analysed the group results because Auckland Council produces a group budget in its long-term plan and we wanted to compare the actual 2015/16 information with the budget.

Did local authorities spend what they planned to on their operations?

1.5 In 2015/16, local authorities’ total operating expenditure was $10.5 billion. This was 10.3% more than the $9.5 billion that was budgeted. Sixty local authorities spent more than they had budgeted on operational expenses, including two local authorities that spent 25% more than they had budgeted. Although operational expenses were more than anticipated when setting the budget, the variances can be reasonably explained.

1.6 Higher-than-budgeted expenditure related to items that local authorities cannot easily budget for or control. These items include:
- gains or losses on assets sold;
- fair value movements on investment property and derivative financial instruments;
- foreign exchange movements; and
- impairment of assets (for example, reduced value from damage arising from earthquakes or storm events).

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\(^1\) The information excludes the results of Carterton District Council. The annual report of this local authority was not publicly available when we prepared this report.
Factors outside of a local authority’s control, such as changes to interest rates or the property market, can significantly influence what assets are sold for, which can affect a local authority’s expenditure or revenue.

Auckland Council had the largest variance to budget, with operating expenditure that was $561 million more than the $3.4 billion budgeted. Of this variance, $552 million related to the items noted in paragraph 1.6.

Figure 1 compares the actual amount spent and the budget for 2015/16 by type of operating expenditure. Local authorities spent 7.2% less than budgeted on finance costs. This is primarily because local authorities borrowed less than planned (see paragraphs 1.36 to 1.47).

<table>
<thead>
<tr>
<th>Operating expenditure item</th>
<th>2015/16 actual amount $million</th>
<th>2015/16 budgeted amount $million</th>
<th>Percentage over/(under) budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>2,204</td>
<td>2,151</td>
<td>2.4%</td>
</tr>
<tr>
<td>Finance costs</td>
<td>758</td>
<td>816</td>
<td>(7.2%)</td>
</tr>
<tr>
<td>Other operating expenditure</td>
<td>7,511</td>
<td>6,531</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

Are local authorities maintaining their budget commitments to invest in their assets?

Most local authorities did not spend as much on their assets as they had planned. Local authorities’ capital expenditure in 2015/16 was $3.4 billion, about 70% of the $4.9 billion budgeted.2,3

The two largest variances were for Auckland Council ($462 million) and Christchurch City Council ($472 million). These two local authorities spent 74% and 51% of their respective capital expenditure budgets. They reported that this was because of delays in the timing of individual projects.

It is not unusual for local authorities to spend less than in the budget. In 2015/16, 45 local authorities, including Auckland Council and Christchurch City Council, spent less than 80% of their capital expenditure budgets. Twenty-three

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2 This information has been extracted from the statement of cash flows of local authorities. It includes only the cash that the local authority spent on purchasing property, plant, and equipment and intangible assets.

3 When capital expenditure, as reflected in all local authorities’ whole-of-council funding impact statements, is compared to budget in those statements, 73% of budgeted capital expenditure has been incurred. We consider that the difference between the 70% and the 73% relates to the level of year-end accruals between years.
local authorities spent between 80% and 125% of their budgets, and nine local authorities spent more than 125% of their budgets.  

1.13 Spending less than has been budgeted is a trend we have seen in previous years. From 2012/13, local authorities have spent, on average, a maximum of 77% of their capital expenditure budget in any one year. Figure 2 shows the performance of local authorities against their budget from 2012/13 to 2015/16.

**Figure 2**
Local authorities’ actual capital expenditure as a percentage of their budgeted capital expenditure, 2012/13 to 2015/16

<table>
<thead>
<tr>
<th>Year</th>
<th>Less than 80%</th>
<th>Between 80% and 125%</th>
<th>More than 125%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>46</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>2013/14</td>
<td>43</td>
<td>28</td>
<td>6</td>
</tr>
<tr>
<td>2014/15</td>
<td>45</td>
<td>28</td>
<td>4</td>
</tr>
<tr>
<td>2015/16</td>
<td>45</td>
<td>23</td>
<td>9</td>
</tr>
</tbody>
</table>

1.14 From the financial information, we cannot assess what effect the underspending has on the service potential of local authorities’ property, plant, and equipment.

1.15 However, local authorities that are consistently underspending on their capital expenditure budgets do need to understand the effect this has on their assets. For example, underinvestment could compromise the long-term ability of local authorities to deliver services to their communities.

1.16 We will continue to focus on underspending, especially during our audits of local authorities’ 2018-28 long-term plans.

**Does this capital expenditure trend differ for major infrastructural assets?**

1.17 Local authorities are responsible for owning and managing the following main groups of infrastructure assets:

- water supply;
- sewerage;
- stormwater drainage;
- flood protection; and
- roading and footpaths.

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4 That is, these local authorities spent an extra 25% or more than they had budgeted for.
1.18 As in previous years, in 2015/16, we collected and analysed the capital expenditure disclosed in the funding impact statements for these activities. Capital expenditure has to be disclosed in three categories:

- expenditure for new assets to meet additional demand;
- expenditure to improve levels of service; and
- expenditure to replace or renew existing assets.

1.19 As shown in Figure 3, spending against each type of capital expenditure other than renewals and replacement of sewerage assets was, for all local authorities, generally well below budget. Of the core activities, there are no categories where the amount spent was within 10% of budget.

1.20 As we reported last year, this low level of capital expenditure calls into question the accuracy of budgets. It also highlights the risk that, if underinvestment continues, local authorities might not be able to maintain service levels in the future. We expect that some local authorities might have to make difficult decisions about future service levels if they are not able to maintain them at the current levels.

Figure 3
Core activity funding impact statements – total actual capital expenditure and comparison with budgeted capital expenditure

<table>
<thead>
<tr>
<th>Capital expenditure types</th>
<th>Additional demand</th>
<th>Improve level of service</th>
<th>Renewal and replacement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water supply</td>
<td>Actual capital expenditure</td>
<td>$113.6m</td>
<td>$100.3m</td>
</tr>
<tr>
<td>Actual against budget</td>
<td>82%</td>
<td>65%</td>
<td>78%</td>
</tr>
<tr>
<td>Sewerage</td>
<td>Actual capital expenditure</td>
<td>$132.5m</td>
<td>$98.6m</td>
</tr>
<tr>
<td>Actual against budget</td>
<td>59%</td>
<td>65%</td>
<td>126%</td>
</tr>
<tr>
<td>Stormwater drainage</td>
<td>Actual capital expenditure</td>
<td>$43.3m</td>
<td>$67.2m</td>
</tr>
<tr>
<td>Actual against budget</td>
<td>60%</td>
<td>87%</td>
<td>81%</td>
</tr>
<tr>
<td>Flood protection</td>
<td>Actual capital expenditure</td>
<td>$8.8m</td>
<td>$37.1m</td>
</tr>
<tr>
<td>Actual against budget</td>
<td>65%</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Roading and footpaths</td>
<td>Actual capital expenditure</td>
<td>$139.7m</td>
<td>$252.6m</td>
</tr>
<tr>
<td>Actual against budget</td>
<td>83%</td>
<td>73%</td>
<td>88%</td>
</tr>
</tbody>
</table>

1.21 We encourage all local authorities to carefully assess how accurate their budgets are and to remain aware of other factors that could result in substantial differences between the delivery of capital expenditure work and what was planned.
Are local authorities adequately reinvesting in their assets?

1.22 In previous years, we outlined concerns that local authorities might not be adequately reinvesting in their assets.

1.23 To consider how local authorities are investing in their assets, we compared renewal capital expenditure to depreciation (depreciation is the best estimate of what portion of the asset was used during the period) (see Figure 4).

1.24 The comparison of renewal capital expenditure to depreciation shows that, for most local authorities, renewals were less than 100% of depreciation. Such results are likely to indicate that the quality of the assets is deteriorating. If nothing changes, the cost of improving the quality of the assets might fall on future generations.

1.25 There appears to be an increase in 2014/15 and 2015/16 in the number of local authorities whose expenditure on renewals is more than 100% of depreciation. This increase is largely because some local authorities are completing large, one-off renewal projects.

**Figure 4**
Renewal capital expenditure compared to depreciation, 2012/13 to 2015/16

1.26 This calculation is only an indication of whether the expenditure is enough to maintain existing assets. We urge individual local authorities to continue considering whether they are adequately maintaining their assets, taking into account their unique circumstances.

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5 See, for example, Office of the Auditor-General (2016), *Local government: Results of the 2014/15 audits*, pages 14 and 15.
A comprehensive understanding of the age and condition of critical assets, as well as of future demand (for example, increases or decreases depending on demographic changes or changes to environmental standards), is important in assessing whether the actual and planned expenditure is sustainably maintaining assets.

Once local authorities have a comprehensive understanding of their critical assets and the cost of adequately maintaining them, elected members can make informed decisions about managing their assets and have well-informed conversations with their communities about how to fund that cost or the consequences of not doing so.

We will continue to focus on this, especially during the audits of local authorities’ 2018-28 long-term plans.

What are the revenue trends?

Our analysis shows that there are no unusual or unexpected revenue trends. As in previous years, local authorities’ revenue was in line with their budgets.

In 2015/16, local authorities recorded revenue of $11.1 billion. This was 4.3% more than the $10.7 billion that was budgeted. Fifty-five local authorities recorded more revenue than budgeted. Five of those local authorities recorded 25% more revenue than budgeted.

Auckland Council had the largest dollar variance to budget, receiving $68 million more than the $3.7 billion that was budgeted. However, this is only 1.8% more than what Auckland Council budgeted.

Local authorities receive revenue through many sources. In 2015/16, rates remained the main source of income (49.6% of local authorities’ total revenue). Other significant revenue sources were:

- development and financial contributions, which local authorities charge to help fund extra infrastructure as a result of development projects;
- grants and subsidies – for example, grants from the New Zealand Transport Agency, which helps to fund the roading work done by local authorities;
- investments, such as interest and dividend income;
- user charges, which are fees local authorities charge for a variety of activities, including building and resource consenting processes, dog licensing, and food premises licensing; and
- vested assets, which represent the value of assets donated by others to local authorities. This is a non-cash revenue source.

We have included the share of surplus in associates and joint ventures recognised by Auckland Council in our revenue analysis.
Part 1
Financial results and trends

1.34 Many local authorities received more revenue from investments and vested assets in 2015/16 than they expected. Many of the local authorities reported that the increase over budgeted revenue was from these revenue sources.

1.35 Conversely, local authorities received proportionately less revenue from grants and subsidies. A significant proportion of the grants that local authorities received was to fund capital expenditure work. As we noted above, most local authorities did not spend all of their capital expenditure budgets in 2015/16 and so missed out on grants.

Did local authorities prudently manage their debt?

1.36 Local authorities as a whole appear to be managing debt prudently.

1.37 Local authorities had $13.6 billion of debt at 30 June 2016, which was $1.1 billion less than budgeted and $667 million more than at 30 June 2015. This continues a trend since 2012/13 of local authorities having less debt than budgeted for.7

1.38 Many local authorities use debt to fund long-life assets. As a general principle, debt should not be used to fund operations because it is like borrowing to pay for the groceries. Furthermore, local authorities usually use debt to fund new assets to meet demand or to increase levels of service, rather than to fund renewals.

1.39 However, local authorities can choose to use debt to fund any type of capital expenditure. Because many local authorities do not spend all of their capital expenditure budgets, we are not surprised that local authority debt was less than budgeted.

1.40 Not all local authorities carry debt. At 30 June 2016, 12 local authorities had no debt.

1.41 Auckland Council recorded the most debt at 30 June 2016 and made up about 56% of total local authority debt.

1.42 The effect of debt on local authorities is best assessed by considering the cost of servicing debt. In our view, managing financing costs that are more than 15% of rates revenue is likely to be difficult and will reduce a local authority's flexibility to respond to unexpected changes.

1.43 However, there is no specific rule on the appropriate level of such costs. It is up to individual local authorities to determine limits they are comfortable with based on their circumstances and to disclose these in their financial strategies. Local authorities that borrow through the New Zealand Local Government Funding Agency must also comply with a set of financial covenants.

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7 From 2012/13, local authorities as a whole have between 90% and 100% of the budgeted debt as at 30 June.
1.44 The proportion of rates revenue used to meet financing costs was 13.7% for 2015/16, which was 1.1% less than budgeted. Importantly, the proportion was also less than for 2014/15 (by 1.2%). This indicates that local authorities should be in a better position to meet financing obligations compared with prior years. This is partly a result of low interest rates.

1.45 Seven local authorities had financing costs as a proportion of rates revenue at or above 15% in 2015/16. These local authorities had budgeted for this position.

1.46 Local authorities report against prudence benchmarks in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014. These include three types of benchmarks related to debt:
   • debt affordability benchmark;
   • debt servicing benchmark; and
   • debt control benchmark.

1.47 The seven local authorities that had higher financing costs as a proportion of rates revenue all reported that they met their debt affordability benchmarks in 2015/16. However, not all local authorities met the debt servicing benchmark or the debt control benchmark. Those local authorities need to carefully monitor and manage this position.

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8 Finance costs have been drawn from the Statement of Comprehensive Income. It is possible that these figures could include non-cash items. This calculation is only an indication of the pressure debt can place on a local authority. Other sources of revenue, such as development contributions and user charges, also contribute to meeting the cost of debt.
2

Timeliness in annual reporting

2.1 In this Part, we set out when local authorities adopted their annual reports and publicly released their annual reports and summary annual reports. We also discuss the importance of the statutory requirements for adopting annual reports and their public release.

2.2 The Local Government Act 2002 (the Act) requires local authorities to:

• complete and adopt an annual report – containing audited financial statements and service performance information – within four months after the end of the financial year;
• make the annual report publicly available within one month of adopting it; and
• release an audited summary of the annual report within one month of adopting the annual report.

2.3 The statistics we use were compiled on 20 January 2017. Appendix 1 sets out more detail on when local authorities adopted and released their annual reports and summary annual reports.

Adopting annual reports

2.4 In 2015/16, Carterton District Council and Hurunui District Council missed the deadline to complete and adopt their audited annual report within four months after the end of the financial year. Figure 5 shows local authorities’ performance in meeting the statutory deadline for adopting annual reports from 2011/12 to 2015/16.

Figure 5
Performance in meeting the statutory deadline for adopting annual reports, 2011/12 to 2015/16

<table>
<thead>
<tr>
<th></th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopting the annual report</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

2.5 Of the 76 local authorities that adopted their annual reports before the statutory deadline, 29 did so in the last week before the deadline. For 2014/15, 32 local authorities adopted their annual reports in the last week before the deadline.
Public release of annual reports and summary annual reports

2.6 We are concerned that the release of this information to the public has not improved since last year. A delay undermines effective accountability, which in turn undermines communities’ continued trust and confidence in their local authority.

2.7 Three local authorities missed the one-month deadline for releasing their annual reports to the community, and seven missed the one-month deadline for releasing their summary annual reports. Figure 6 shows local authorities’ performance in meeting the statutory deadline for releasing annual reports and summary annual reports from 2011/12 to 2015/16.

Figure 6
Performance in meeting the statutory deadline for releasing annual reports and summary annual reports, 2011/12 to 2015/16

<table>
<thead>
<tr>
<th></th>
<th>Number of local authorities that met the statutory deadlines</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011/12</td>
</tr>
<tr>
<td>Releasing the annual report</td>
<td>77</td>
</tr>
<tr>
<td>Releasing the summary annual report</td>
<td>75</td>
</tr>
</tbody>
</table>

* The 2013/14 statistics for public release dates do not include the local authorities that adopted their annual reports after 5 December 2014.
** Out of the 76 that had met the statutory deadline for completing and adopting the annual report.
*** Out of the 77 that had met the statutory deadline for completing and adopting the annual report.

The importance of timely reporting

2.8 Annual reports provide information that helps communities to assess how well their local authority performs. The information must be comprehensive and timely for communities to do this effectively.

2.9 Releasing annual reports and summary annual reports is an important part of a local authority’s accountability to its community. The summary annual report contains the most understandable information for most readers, and it is the easiest document to circulate and make widely available.

2.10 We consider that many local authorities need to better project manage how they produce and publish their annual reports and summary annual reports.

2.11 Most local authorities publish their annual report on their website. In our view, local authorities should be able to publish their annual reports online within a few days of adopting them. We expect all local authorities to be able to do this.
The audit reports we issued in 2016

3.1 In this Part, we discuss the modified opinions we issued and the audit reports that drew attention to important disclosures.

3.2 During 2016, we issued 408 audit reports on the financial statements and performance information of local authorities and their subsidiaries, and entities associated with, or related to, local authorities (see Figure 7).9

3.3 Through these reports, we assure the readers of public entities’ financial statements and performance information that they can rely on the information about how public money is spent and how well public services are performed.

Figure 7
Audit reports issued on local authorities and subsidiaries, and entities associated with, or related to, local authorities

| Local authorities | 76 | 3 | 79 |
| Council-controlled organisations | 155 | 18 | 2 | 8 | 183 |
| Energy companies and subsidiaries (owned by local authorities) | 10 | 1 | 11 |
| Airports and subsidiaries | 19 | 1 | 2 | 1 | 23 |
| Port companies and subsidiaries | 35 | 1 | 36 |
| Other local government organisations | 62 | 10 | 2 | 2 | 76 |
| Total | 357 | 31 | 2 | 4 | 14 | 408 |

*Multiple audit reports might be issued if unfinished audits from previous years are completed during the same year.

9 Local authorities, most council-controlled organisations, airports, port companies, and other local government organisations have a 30 June balance date. Energy companies have a 31 March balance date. Some council-controlled organisations and other local government organisations have a balance date in March, August, October, or December.
3.4 Of the 408 audit reports, 388 had unmodified opinions. This means that we had no concerns about the information reported, although we drew attention to important disclosures in 31 of those audit reports. The remaining 20 audit reports contained modified opinions, meaning that either we disagreed with how the entity reported information or we could not get the information we needed.

3.5 Appendix 2 summarises the matters included in the non-standard audit reports.

**Disclaimers of opinion**

3.6 We are sometimes unable to obtain the information we need from an entity, and the lack of information can fundamentally affect our view of the financial statements and performance information.

3.7 This usually occurs when the entity is dealing with circumstances outside its control, such as responding to natural disasters. In such situations, we disclaim an opinion, meaning that we do not have the information to form an opinion on the financial statements or performance information.

3.8 During 2016, we issued two disclaimers of opinion on the 2015 financial statements. Both were for council-controlled organisations of Hamilton City Council – Titanium Park Joint Venture and Titanium Park Limited. The most significant aspect of each organisation’s financial statements was a development property.

3.9 Neither organisation could give us enough evidence to support the value of the development property as stated in the financial statements. Because of the significance of the development property to the financial statements, we could not provide assurance on the statements.

**Adverse opinions**

3.10 Sometimes, we disagree with the way an entity applies accounting standards, and the effect of the disagreement is fundamental to the financial statements or performance information. During 2016, we issued four adverse opinions.

3.11 Two opinions related to Sicon Limited and Geotech Limited Joint Venture (a council-controlled organisation) for 2012/13 and 2013/14. The joint venture had not reported performance information for either of these periods, as it was required to. That information is fundamental to understanding how well the joint venture’s services are being performed.
3.12 The other two adverse opinions related to Otago Museum Trust Board Incorporated for 2015/16 and Canterbury Museum Trust Board for 2014/15. The collection assets of these museums are integral to what they do.

3.13 Canterbury Museum Trust Board does not recognise these assets or the associated depreciation expense in their financial statements.

3.14 Otago Museum Trust Board Incorporated recognises collection assets purchased since 2001. Collection assets acquired before 2001 have not been recognised or depreciated.

3.15 For a number of years, these two museums have expressed concern with assigning financial values to collection assets.

**Qualified opinions**

3.16 We qualify an opinion where an aspect of an entity’s financial statements or performance information that is not fundamental either does not comply with accounting standards or is unable to be supported because the entity cannot provide us with the necessary supporting information. During 2016, we qualified 14 opinions. Appendix 2 sets out the reasons for the qualifications.

3.17 Christchurch City Council was one of the entities that received a qualified opinion for 2015/16. Christchurch City Council was significantly affected by the 2010 and 2011 Canterbury earthquakes.

3.18 For 2010/11, the level of uncertainty in the information reported by Christchurch City Council, particularly about water, wastewater, sewerage, and roading network assets, meant that we issued a disclaimer of opinion. Since then, Christchurch City Council has worked hard to get reliable information about the state of such assets. As a result, the modifications to our audit opinions have lessened.

**Unmodified opinions with “emphasis of matter” paragraphs**

3.19 At times, public entities report matters in their financial statements and performance information that is so important that we draw attention to the matter in our audit report. During 2016, 31 sets of financial statements contained information that we emphasised in our audit report. We did this to draw attention to important disclosures the entity made in its financial statements.

3.20 For example, if an entity has decided to cease operation, that decision will affect the way that financial statements are prepared and how assets are valued. The financial statements will need to contain disclosures about this. These disclosures are important to readers’ understanding of the financial statements. Therefore, we normally draw attention to the entity’s disclosures about ceasing operation.
4.1 In this Part, we discuss how local authorities responded to changes to the Act about consulting on annual plans.

4.2 Changes to consultation and community engagement processes were made in August 2014 and first took effect for the 2016/17 annual plans. The changes were part of broader reforms from the Government’s Better Local Government program.

4.3 The changes to the Act in 2014 included:

- making consultation requirements more flexible by repealing most requirements to use the special consultative procedure when consulting under the Act, and amending the procedure to accommodate new ways of communicating and consulting;
- providing for a new significance and engagement policy to make it clear how and when communities can expect to be engaged in decisions about different matters; and
- enabling more efficient and focused consultation on long-term and annual plans.

4.4 The Act now provides for a concise and focused consultation document for long-term plans and, when required, for annual plans. When consulting with their communities, local authorities now use these documents instead of detailed draft plans that have a lot of technical material.

4.5 We have reported on the changes to consultation on long-term plans in previous reports. Here, we focus on changes to consultation requirements for annual plans.

4.6 In the rest of this Part, we set out the changed consultation requirements and then discuss how local authorities responded.

**Annual plans**

4.7 Every three years, a local authority must prepare and adopt a long-term plan that covers at least the next 10 years. For the first year of the plan, the funding impact statement and financial statement in the long-term plan is regarded as that year’s annual plan. For the second and third years of the long-term plan, the local authority must prepare an annual plan.

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11 Office of the Auditor-General (2015), Matters arising from the 2015 local authority long-term plans and Consulting the community about local authorities’ 10-year plans.
12 Local Government Act 2002, section 95(4).
4.8 The purposes of the annual plan include:
• showing the proposed annual budget and funding impact statement for the financial year to which the plan relates;
• showing any variation from the financial statements and funding impact statement for that year included in the local authority’s long-term plan; and
• helping the local authority be accountable to the community.\textsuperscript{13}

4.9 A local authority must adopt an annual plan before the start of the financial year covered by the plan. This is a necessary step in the process of setting rates for that financial year.\textsuperscript{14}

**Consultation process for annual plan**

4.10 Before the changes to the Act in 2014, local authorities had to use a special consultative procedure for their annual plans. This required local authorities to prepare a draft annual plan for consultation and then adopt a final annual plan after considering submissions.

4.11 After the changes to the Act in 2014, a local authority:
• no longer has to use the special consultative procedure to adopt the annual plan but must adopt the plan in a way that gives effect to the principles of consultation in the Act;\textsuperscript{15}
• does not need to consult if there are no significant or material differences from the content of the long-term plan for the financial year to which the annual plan relates;\textsuperscript{16} but
• must prepare a consultation document when proposing significant or material differences from the long-term plan for the financial year covered by the proposed annual plan.\textsuperscript{17}

4.12 The Act gives guidance about the type of differences and variations that will require consultation.\textsuperscript{18} These include:
• significant or material variations or departures from the financial statements or funding impact statement;
• significant new spending proposals; and
• a decision to delay or not proceed with a significant project.

\textsuperscript{13} Local Government Act 2002, section 95(5).
\textsuperscript{14} Local Government Act 2002, section 95(3), and Local Government (Rating) Act 2002, section 23.
\textsuperscript{15} Local Government Act 2002, section 95(2), and see also sections 82, 82A(3), and 95A.
\textsuperscript{16} Local Government Act 2002, section 95(2A).
\textsuperscript{17} Local Government Act 2002, sections 95(2), 82A(3), and 95A.
\textsuperscript{18} Local Government Act 2002, sections 95A(2) and (5).
Local authorities now need to consult only on significant departures from their long-term plans. They now do this in a more focused way by preparing a concise consultation document rather than a full draft annual plan.

**Combined consultation documents**

The process and requirements for a consultation document for the annual plan are similar to those for adopting or amending the long-term plan. The main differences are that the consultation document does not have to be audited and that the special consultative procedure does not need to be used.

However, when consulting on a proposed amendment to its long-term plan at the same time as consulting on an annual plan, a local authority must prepare a combined consultation document that covers both matters. It must also use the special consultative procedure.

The content of the combined consultation document relating to the long-term plan amendment needs to be audited. A small number of local authorities did a combined consultation document for 2016/17.

**How local authorities responded to the changes**

We looked at the approaches local authorities took to the changes to the Act. In particular, we looked at local authorities that prepared a consultation document for their annual plan.

Of the 78 local authorities, 21 decided not to formally consult with their communities because they were not proposing any significant or material change from their long-term plan. Of the 21 that did not formally consult, six local authorities chose to engage with their community before adopting their 2016/17 annual plan. For example, one local authority considered public feedback, minor differences from the long-term plan, and funding requests at a public workshop. Others provided material about the content of their proposed annual plan and gave the public opportunities to provide feedback.

Although it is ultimately a decision for the elected members, in keeping with the local authority’s significance and engagement policy, we commend those local authorities that took advantage of the new provisions in the Act but used new and different ways to discuss their plans for the year ahead with their communities.

Some local authorities were reluctant to depart from their established approach of consulting with communities on their annual plan. A few local authorities formally consulted on their annual plan even though the Act did not require them to.
4.21 To be confident in deciding whether to consult, elected members need to be able to rely on the advice from their officials about the process and requirements for engaging with their communities. This advice should:

- set out the legislative requirements;
- give a clear rationale as to whether the local authority should consult, linking to the significance and engagement policy; and
- recommend the form and approach to such consultation based on the nature of the issues being consulted on and the audiences in the community.

4.22 We encourage local authority staff to consider whether they are providing clear advice on these matters to elected members.
Rates issues

5.1 In this Part, we discuss a 2016 High Court interim judgment (the judgment) on the rating practices of Northland Regional Council and Kaipara District Council, and how the judgment might affect other local authorities.

5.2 A local authority’s power to set rates is essentially a power to tax people for the cost of the services that the local authority provides. The judgment reflects the strict approach that the courts take to interpreting legislation that gives entities the power to tax, and reinforces the extreme care that local authorities need to take to set and collect rates correctly.

5.3 A public entity is responsible for ensuring that it complies with its legal and accountability obligations. In the context of setting rates, local authorities are responsible for ensuring that they comply with all aspects of the Local Government (Rating) Act 2002 when they set, assess, invoice, collect, and recover rates.

5.4 Rates are a significant part of a local authority’s revenue. This is reflected in the audited financial statements. The purpose of an audit is to increase the confidence that the public can have in the reported information. In our audits, we seek reasonable assurance that rates revenue has been properly calculated and that there is no major risk to the rates revenue reported.

5.5 We have previously reported on rating matters, including some problems that local authorities were having and our audit approach.19

Northland Regional Council case

5.6 On 15 September 2016, the High Court gave an interim judgment in a judicial review proceeding, Mangawhai Ratepayers’ & Residents’ Association Inc. vs Northland Regional Council and Kaipara District Council.

5.7 The judicial review considered arrangements between Northland Regional Council and Kaipara District Council to collect Northland Regional Council’s rates. The High Court found problems with those arrangements.

5.8 The judgment was given when the auditors were finalising the 2015/16 local authority audits. The judgment has potential implications for rating-collection arrangements between other regional councils and territorial authorities in their regions.

5.9 Auditors needed to quickly consider which local authorities were potentially affected by the judgment, for both current and previous rates, and whether the audit or management reports should refer to any matters arising from the judgment.

Background

5.10 The judgment makes findings on an application for judicial review brought by the Mangawhai Ratepayers’ and Residents’ Association and two individuals (the claimants).

5.11 The judgment addresses the legal challenge to the rates, but the High Court reserved the decision on whether to grant the further relief sought pending further evidence and submissions from the parties. Final judgment had not been given at the time of writing.

The legal challenge

5.12 The claim alleged that the rates set by Northland Regional Council for the 2011/12 to 2015/16 rating years and collected by Kaipara District Council were unlawful. The claimants also challenged aspects of the rates set by both local authorities, including whether rates can be set on a GST-inclusive basis and whether penalties imposed for late or unpaid rates were valid. The claimants sought orders to quash the rates and penalties applied to them and refunds of those rates and penalties.

5.13 The claim succeeded on three matters: Northland Regional Council not specifying payment dates, Northland Regional Council delegating the assessment of rates or recovery of unpaid rates to Kaipara District Council, and Northland Regional Council delegating the authority to impose penalties on unpaid rates.

Specifying payment dates

5.14 Northland Regional Council had not specified actual calendar dates for payment of its rates in its rating resolution for three of the challenged years. Instead, Northland Regional Council’s rating resolution said that payment dates would be those set by the territorial authorities that collected the rates on its behalf.

5.15 The High Court found that this did not meet the requirements of section 24 of the Local Government (Rating) Act 2002, which requires a rates resolution to state the date on which the rate must be paid/or the instalment dates if payable by instalments. Therefore, the High Court found that Northland Regional Council’s rates resolutions were not made lawfully, because they did not specify the days/dates that the regional council’s rates would be payable.

Delegating the assessment of rates or recovery of unpaid rates

5.16 The High Court found that Kaipara District Council could not assess and recover unpaid rates on Northland Regional Council’s behalf. The High Court found that, although one local authority can collect rates on another’s behalf, the regional council could not delegate the power to assess rates to another local authority or
person, or the power to recover unpaid rates to Kaipara District Council without explicit authority in the Local Government (Rating) Act 2002 to do so. Therefore, although Kaipara District Council could collect Northland Regional Council’s rates, it could not sue a ratepayer in its own name to recover unpaid rates.

**Imposing penalties on another council’s unpaid rates**

5.17 The High Court found that there is no power in the Local Government (Rating) Act 2002 for a local authority to delegate the power to impose penalties on its unpaid rates. Therefore, Northland Regional Council’s penalty resolutions that delegated authority to the three territorial authorities in its region to assess and recover penalties on its rates were unlawful.

**Northland Regional Council’s response**

5.18 As a result of the judgment, Northland Regional Council included disclosures in its 2015/16 financial statements about the judgment. These disclosures summarised the High Court’s findings but noted that, because the High Court had yet to determine any relief to be granted, it was not possible to quantify any potential financial liability to Northland Regional Council.

5.19 In our view, the disclosures were adequate and we did not need to draw attention to the matter in our audit report.

**Other affected regional councils**

5.20 We established that four other regional councils used territorial authorities to collect their rates. We suggested that those local authorities should consider whether they were potentially affected by the judgment and, if so, disclose in their 2015/16 financial statements that they were considering the implications.

5.21 One regional council had adopted its annual report shortly after the judgment and before it had considered any implications of the judgment. The other three regional councils made appropriate disclosures in notes to their financial statements.

**The issue of setting precise dates**

5.22 The High Court’s finding that a rates resolution must state the calendar dates for payment of rates could potentially affect other councils, not just regional councils that have collection arrangements with territorial authorities.

5.23 Our auditors established that some territorial authorities that charge for water by consumption do not specify actual payment dates in the rates resolution. Instead, they refer to payment by reference in the resolution to invoicing – for example, stating that these rates will be payable on receipt of a monthly invoice or by the 20th of the month following the invoice.
5.24 We suggested that, although the High Court did not consider the dates issue in relation to water consumption rates, the relevant local authorities should consider the implications of the judgment on their approach to setting payment dates for water consumption rates.

5.25 We estimate that about 16 territorial authorities need to consider their approach to setting water consumption rate payment dates. Local authorities should also ensure that rating assessments include these water consumption rates, even though it is not possible to state the total amount of the rate that will be charged during the year at the start of the year.20

5.26 The judgment reinforces that rate-setting processes and arrangements require care and precision. Some established arrangements might need to be reconsidered for lawfulness.

5.27 Our auditors for the relevant local authorities will follow this matter up in the next audit. They will look for evidence that the local authorities have followed a reasonable process for setting and charging these rates and that the local authorities have had regard to the judgment.

5.28 We encourage all local authorities, under the leadership of Local Government New Zealand and the Society of Local Government Managers, to consider the risks arising to local authorities in rating and raise any concerns with the Department of Internal Affairs.21

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20 The rating assessment must include the amount and a description of each rate. See the Local Government (Rating) Act 2002, section 45(1)(f).

21 The Department of Internal Affairs is responsible for administering the Local Government (Rating) Act 2002.
Our recent and ongoing work in the local government sector

6.1 In this Part, we discuss discretionary work about local government we performed during and since 2014/15.

6.2 For local government, the bulk of the Auditor-General’s resources are used for annual financial audits and audits of long-term plans. These audits are statutory requirements for us under section 15 of the Public Audit Act 2001, and we have drawn from their findings throughout this report. Generally, public entities pay us directly for this work.

6.3 As well as these statutory requirements, the Auditor-General has the power to conduct discretionary work in the form of performance audits (under section 16 of the Public Audit Act 2001) and inquiries (under section 18 of the Public Audit Act) examining aspects of local government performance. Generally, Parliament, rather than the public entities, pays for this work.

6.4 Under section 104 of the Local Government (Auckland Council) Act 2009, the Auditor-General is required to review the service performance of Auckland Council and its council-controlled organisations.

Performance audits

6.5 We recently published six reports examining aspects of local government. Figure 8 summarises the findings of these reports.

Figure 8
Recent performance audit reports on local government

<table>
<thead>
<tr>
<th>Title</th>
<th>Date</th>
<th>Local authority</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviewing aspects of the Auckland Manukau</td>
<td>October</td>
<td>Auckland Council</td>
<td>Our report found that progress with technical aspects – such as reaching design solutions, developing procurement options, and budget management – had been strong. However, as part of its monitoring and reporting, Auckland Transport needed to improve its focus on relationships with stakeholders, contractor performance, and the benefits delivered to date. We made 12 recommendations to help Auckland Transport strengthen the Auckland Manukau Eastern Transport Initiative’s governance, accountability, and programme management arrangements.</td>
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<tr>
<td>Eastern Transport Initiative</td>
<td>2015</td>
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</table>
Part 6
Our recent and ongoing work in the local government sector

Governance and accountability for three Christchurch rebuild projects

<table>
<thead>
<tr>
<th>Date</th>
<th>Body</th>
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<tbody>
<tr>
<td>December 2015</td>
<td>Our report looked at the governance arrangements for three projects to rebuild essential facilities in Christchurch: the Bus Interchange, the New Central Library (which is owned by Christchurch City Council), and the Acute Services Building at Christchurch Hospital. We found that governance was most effective when there was a clear structure and when accountabilities, roles, and responsibilities were well defined and understood. Strong leadership was an important part of effective governance, and being clear about who is accountable for project outcomes supports effective governance.</td>
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Principles for effectively co-governing natural resources

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<th>Date</th>
<th>Body</th>
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| February 2016 | Throughout New Zealand, iwi, hapū, and community groups are taking part in projects to monitor, protect, and enhance the health of their local environment. Many of these projects are done in partnership with local authorities. Our report drew on the experiences of eight co-governed initiatives to identify some principles to consider when setting up and running co-governance and co-management initiatives. The principles are to:

• build and maintain a shared understanding of what everyone is trying to achieve;
• build the structures, processes, and understanding about how people will work together;
• involve people who have the right experience and capacity;
• be accountable and transparent about performance, achievements, and challenges; and
• plan for financial sustainability and adapt as circumstances change.

The report also highlighted that successful co-governance relies on effective relationships. All parties involved need to value and prioritise building an effective relationship. This takes time and commitment. Building and maintaining mutual trust and respect needs constant attention to achieve good environmental outcomes. |
Part 6

Our recent and ongoing work in the local government sector

<table>
<thead>
<tr>
<th>Effectiveness and efficiency of arrangements to repair pipes and roads in Christchurch – follow-up audit</th>
<th>May 2016</th>
<th>Christchurch City Council</th>
<th>Our report found that the public entities, including Christchurch City Council, had made good progress in addressing the recommendations we made in our 2013 report. The Stronger Christchurch Infrastructure Rebuild Team (SCIRT) has made solid progress in repairing damaged pipes and roads. Public entities have also improved the governance arrangements for SCIRT. These improvements include clearer roles and responsibilities, more effective guidance and clearer direction to SCIRT, and improvements in reporting.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland Council: How it deals with complaints</td>
<td>August 2016</td>
<td>Auckland Council</td>
<td>As part of our periodic reviews of Auckland Council's service performance, we audited Auckland Council's complaints-handling process. Overall, Auckland Council has a focus on resolving complaints, and most are dealt with in a timely manner. But it could do better in some aspects – in particular, collecting information on the complainant's perspective of how the Council handled their complaint.</td>
</tr>
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</table>

Note: All of these reports are available on our website, www.oag.govt.nz.

6.6 Lessons from this work are relevant to all local authorities. These include the:

- usefulness, as part of project monitoring, of reporting on relationships with stakeholders, contractor performance, and the benefits delivered to date;
- importance of clear roles, clear responsibilities, and strong leadership to effective governance; and
- value that can be obtained from customer complaints when the information is recorded and analysed in its entirety.

6.7 Although some aspects of these lessons might appear elementary, they show the importance of getting the basics right – something that is not always achieved.
Inquiry requests

6.8 We regularly get requests from members of Parliament, public entities, and members of the public, including ratepayers, to inquire into aspects of local government performance. In general, these requests relate to concerns about how local authorities use resources, which can include financial, governance, and management matters.

6.9 Inquiry requests can be a useful source of information for us. They indicate concerns that ratepayers have and can help us to plan what work we do. We take those requests into account when preparing our annual work plan and annual financial audits.

6.10 We are not a complaints resolution organisation, and we have limited resources for inquiry work. We cannot and do not inquire into every local government issue raised with us.

6.11 Where possible, we encourage complainants to resolve their complaints with the organisations concerned in the first instance. This includes encouraging councillors who complain to us about their councils to raise their concerns with the chief executive or at the council table.

6.12 In many instances, we close an issue by obtaining the appropriate information from the organisations concerned without having to do a major or significant inquiry, or we pass the information on to our appointed auditor of the local authority for consideration and any appropriate action during the annual financial audit. For some issues, we carry out a more substantive inquiry.

6.13 In 2015/16, there were slightly more than 100 new requests for us to look into local government issues. In the same period, we received about 60 requests for us to look into central government issues.

6.14 In 2015/16, the types of local government issues we looked into to determine whether we would make a formal inquiry included:

• behaviour and decisions of local government staff and of elected members;
• conflicts of interest of local government staff and of elected members;
• economic development initiatives;
• procurement and contract management; and
• various aspects of financial management.

6.15 Several concerns raised with us related to decisions made by local authorities. Decisions made by elected members – for example, a council resolution – are referred to as policy decisions. We cannot change these. Our role is limited to
looking at local authorities’ implementation of those decisions and how those decisions are made, not the content of the decision.

**Issues that we are continuing to monitor**

6.16 We received several requests to inquire into two projects during 2015/16 that we are continuing to monitor. These are Whanganui District Council’s wastewater treatment plant development and the Ruataniwha Water Storage Scheme development in Hawke’s Bay.

**Whanganui District Council – wastewater treatment plant development**

6.17 The construction of wastewater and water supply treatment plants are often the most complex and costly projects commissioned by local authorities. For the last 12 years, Whanganui District Council has had issues with procuring and constructing a wastewater treatment plant.

6.18 The plant that was originally commissioned did not function properly and could not comply with the resource consent conditions it was meant to operate to. It ceased to operate in 2013. Closing this plant and proceeding with plans for a replacement have resulted in considerable costs and uncertainties for Whanganui residents.

6.19 We received several requests last year to inquire into this project, including to look into decision-making, management, and engineering advice. Some of these matters are not part of our mandate and are not matters we could inquire into. For example, we are not well placed to judge Whanganui District Council’s chosen design. As well as our normal annual audit engagements, we have discussed the situation and its future plans with Whanganui District Council.

6.20 In recognition of the importance and interest in the project, Whanganui District Council amended its 2015-25 long-term plan to detail its plans and consult with ratepayers. Our audit opinion on the long-term plan drew attention to uncertainties about the cost of the proposed wastewater treatment plant and its use by trade users.

6.21 Our expectations are that Whanganui District Council will:

- have independent quality assurance over the project;
- maintain good contract management, strong project management, and good governance over the project; and
- provide clear and transparent reporting on the project’s progress.

6.22 We have communicated our expectations to Whanganui District Council.
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6.23 Our appointed auditor will continue to monitor Whanganui District Council’s progress with the new wastewater treatment plant – in particular, how the management and governance of the project aligns with our expectations.

Ruataniwha Dam – Hawke’s Bay

6.24 Throughout 2016, we regularly considered matters involving the Ruataniwha Water Storage Scheme (the Scheme), which is being developed by Hawke’s Bay Regional Council. Our involvement included our annual audit work, auditing a proposed amendment to the long-term plan, and our role under the Local Authorities (Members’ Interests) Act 1968 in relation to the financial interests of councillors. We also responded to several complaints and requests to inquire into the Scheme.

6.25 The Scheme is to build a dam at the upper Makaroro River in Central Hawke’s Bay to create a reservoir for irrigation and to provide water for “environmental flows” or flushing flows within the river system. Water for irrigation would be delivered primarily through existing natural riverbeds.

6.26 Hawke’s Bay Regional Council proposes to invest up to $80 million in the Scheme. At the time of writing, Hawke’s Bay Regional Council had resolved to place a moratorium on the proposal’s progress until it received further advice on the wider Scheme.

Annual audit and long-term plan matters

6.27 In early 2016, Hawke’s Bay Regional Council proposed purchasing an additional $22 million m\(^3\) of water from the Scheme from 2026/27 and for the next 25 years for “flushing” additional water flows to waterways to reduce pollution and enhance ecosystems, at a cost of about $37 million.

6.28 Hawke’s Bay Regional Council initially considered that it did not need to consult its community or amend its long-term plan for the proposal. It asked us for our view. At the same time, four regional councillors complained to us about this decision.

6.29 We suggested that Hawke’s Bay Regional Council might need to amend its long-term plan because the activity of purchasing water for environmental reasons was not in its financial strategy. Hawke’s Bay Regional Council reconsidered its decision and decided to consult and proposed to amend its long-term plan. We audited the consultation document for the amendment.

6.30 After hearing submissions on the proposed amendment, Hawke’s Bay Regional Council decided not to amend its long-term plan and to consider more detailed options for using the additional water in the first instance.

22 The purchase of this water was in addition to the 4 million m\(^3\) of water that the Scheme must provide at no cost to Hawke’s Bay Regional Council for flushing flows as part of its resource consent conditions.
Hawke’s Bay Regional Investment Company Limited, a council-controlled trading organisation of Hawke’s Bay Regional Council, led the development of the Scheme for Hawke’s Bay Regional Council, including accessing land and signing-up water users.

The site for the Scheme’s reservoir was proposed to include land managed by the Department of Conservation in Ruahine Forest Park, which the Department of Conservation agreed to swap for private land. Forest & Bird unsuccessfully challenged this decision in judicial review proceedings in the High Court but succeeded in the Court of Appeal in August 2016. At the time of writing, this decision was the subject of an appeal to the Supreme Court by the Department of Conservation.

Hawke’s Bay Regional Investment Company Limited shows an asset in its financial statements for the costs to date on developing the scheme. Because the Ruahine Forest Park land was integral to the Scheme, the Court of Appeal decision created uncertainty about whether the land could be obtained and so whether the value of the asset recognised in the financial statements was correct.

Because we were unable to obtain enough evidence that it was probable that the land required would be obtained, we were unable to determine whether the costs incurred to date had ongoing value and, if so, how much value. As a result, we issued a qualified audit opinion on the financial statements of both Hawke’s Bay Regional Investment Company Limited and Hawke’s Bay Regional Council. Appendix 2 sets out further details about these audit opinions.

Central Hawke’s Bay District Council

In its 2015-25 consultation document for its long-term plan, Central Hawke’s Bay District Council told its community that it would consult on any proposal to purchase water from the Scheme to supplement its town supplies.

In late 2015, Central Hawke’s Bay District Council conditionally agreed to purchase water from the Scheme to supply four areas in the district, subject to due diligence and public consultation. In April 2016, Central Hawke’s Bay District Council reconsidered the matter and decided to enter into water-user agreements to help manage water supply and water quality issues for two areas rather than to supply water to all four. Central Hawke’s Bay District Council decided it did not need to consult on the modified proposal because of its smaller scale.

We received complaints that Central Hawke’s Bay District Council had not consulted with the community on this proposal nor amended its long-term plan to give effect to the proposal, despite the previous commitment to do so. We considered these issues as part of the annual audit, including whether the Act
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required Central Hawke’s Bay District Council to consult on changing its water-supply arrangements for two areas of the district.

6.38 We told Central Hawke’s Bay District Council that we considered that its approach involved some legal risk. Central Hawke’s Bay District Council has since told us that it has decided to formally consult with its community on the proposal.

Conflict of interest matters

6.39 Some councillors at Central Hawke’s Bay District Council and Hawke’s Bay Regional Council own land in the area proposed to be irrigated by the Scheme. This means that some of these councillors potentially have financial interests in decisions to be made by the Councils about the Scheme, because the value of their land might increase if the Scheme proceeds or because they might intend to purchase water from the Scheme in the future.23

6.40 During the year, we received several complaints from members of the public and requests for us to inquire into whether councillors had breached the Local Authorities (Members’ Interests) Act 1968, which regulates financial interests of elected members.

6.41 We considered whether several elected members of Central Hawke’s Bay District Council had breached the Local Authorities (Members’ Interests) Act 1968 by participating in discussing and voting on Central Hawke’s Bay District Council’s November 2015 conditional decision to purchase water from the Scheme. We determined that, because the decision was conditional, subject to consultation, and subject to further due diligence, they had not breached the Local Authorities (Members’ Interests) Act 1968.

6.42 We received complaints about conflicts of interest focusing on an elected member of Hawke’s Bay Regional Council, Councillor Deborah Hewitt. During 2015/16, another area of land for potential irrigation – known as “Zone N” – was added to the Scheme. As a result, a property owned by Councillor Hewitt’s family trust came within the Scheme’s boundaries.

6.43 Councillor Hewitt sought a declaration from us to enable her to participate in decisions that Hawke’s Bay Regional Council proposed to make about the Scheme. We formed the view that, on balance, she was likely to have a pecuniary interest in Hawke’s Bay Regional Council’s decisions about the Scheme because the value of land owned by her family trust could be affected by these decisions.

6.44 We granted her a declaration because we considered that the benefits of allowing her to participate outweighed the risk that her pecuniary interest could be seen to unduly influence the outcome.24

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23 One district councillor had entered into a water-user agreement to purchase water from the Scheme in the future.

In reaching our view, we were particularly influenced by the significance of the decisions to Hawke’s Bay Regional Council and the region, which in our view warranted all councillors being able to participate in the discussion and vote on decisions.

Other matters

As well as audit and conflict concerns, we received several complaints asking us to inquire into the Scheme or intervene in the decision-making process. Several of these complaints questioned the rationale for the Scheme and its related proposals, and brought up matters of legal compliance.

We received complaints about Hawke’s Bay Regional Council’s decision in early 2016 not to consult on its proposal to purchase water at a fixed price for future “environmental flows”, including from four Hawke’s Bay Regional Councillors concerned about the consultation question and the information relied on for the proposal.

Because Hawke’s Bay Regional Council consulted on, and did not proceed with, the proposal, we did not inquire further into those matters. It is not within our mandate to comment on the relative merits of the Scheme.

We recognise the high level of interest in the Scheme. We will continue to monitor its progress alongside our usual audit engagements with the local authorities involved.
Appendix 1
Adoption of annual reports, and release of annual reports and summary annual reports

The 2015/16 audit results shown in the tables below are based on information available at 20 January 2017.

When local authorities adopted their annual reports

<table>
<thead>
<tr>
<th>When the annual report was adopted</th>
<th>Number adopted for financial year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011/12</td>
</tr>
<tr>
<td>Within two months after the end of the financial year</td>
<td>1</td>
</tr>
<tr>
<td>Between two and three months after the end of the financial year</td>
<td>15</td>
</tr>
<tr>
<td>Between three and four months after the end of the financial year</td>
<td>61</td>
</tr>
<tr>
<td><strong>Subtotal: Number meeting statutory deadline</strong></td>
<td><strong>77</strong></td>
</tr>
<tr>
<td>Percentage of local authorities meeting statutory deadline</td>
<td>99%</td>
</tr>
<tr>
<td>Between four and five months after the end of the financial year</td>
<td>1</td>
</tr>
<tr>
<td>More than five months after the end of the financial year</td>
<td>0</td>
</tr>
<tr>
<td>Not issued as at the date of compilation of respective reports</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78</strong></td>
</tr>
</tbody>
</table>

When local authorities released their annual reports

<table>
<thead>
<tr>
<th>Time after adopting annual report</th>
<th>Number released for financial year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011/12</td>
</tr>
<tr>
<td>0-5 days</td>
<td>36</td>
</tr>
<tr>
<td>6-10 days</td>
<td>9</td>
</tr>
<tr>
<td>11-20 days</td>
<td>13</td>
</tr>
<tr>
<td>21 days to one month</td>
<td>19</td>
</tr>
<tr>
<td><strong>Subtotal: Number meeting statutory deadline</strong></td>
<td><strong>77</strong></td>
</tr>
<tr>
<td>Percentage of local authorities meeting statutory deadline</td>
<td>99%</td>
</tr>
<tr>
<td>Number not meeting the deadline</td>
<td>1</td>
</tr>
<tr>
<td>Not issued as at the date of compilation of respective reports</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78</strong></td>
</tr>
</tbody>
</table>
## Adoption of annual reports and release of annual and summary annual reports

When local authorities released their summary annual reports

<table>
<thead>
<tr>
<th>Time after adopting annual report</th>
<th>Number released for financial year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011/12</td>
</tr>
<tr>
<td>0-5 days</td>
<td>21</td>
</tr>
<tr>
<td>6-10 days</td>
<td>7</td>
</tr>
<tr>
<td>11-20 days</td>
<td>12</td>
</tr>
<tr>
<td>21 days to one month</td>
<td>35</td>
</tr>
<tr>
<td><strong>Subtotal: Number meeting statutory deadline</strong></td>
<td><strong>75</strong></td>
</tr>
</tbody>
</table>

Percentage of local authorities meeting statutory deadline

<table>
<thead>
<tr>
<th></th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5 days</td>
<td>96%</td>
<td>95%</td>
<td>91%</td>
<td>93%</td>
<td>90%</td>
</tr>
<tr>
<td>6-10 days</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>11-20 days</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>21 days to one month</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>More than 60 days</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Not issued as at the date of compilation of respective reports</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78</strong></td>
<td><strong>78</strong></td>
<td><strong>78</strong></td>
<td><strong>78</strong></td>
<td><strong>78</strong></td>
</tr>
</tbody>
</table>
Appendix 2
Summaries of the non-standard audit reports issued in 2016

Modified audit opinions – disclaimers of opinion

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year ended</th>
<th>Audit Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Titanium Park Limited (Hamilton City Council)</td>
<td>Year ended 30 June 2015</td>
<td>Modified opinion – disclaimers of opinion</td>
</tr>
<tr>
<td></td>
<td>We were unable to form an opinion on the company's 30 June 2015 financial statements because we were unable to get enough appropriate audit evidence to support the carrying value of the development properties of $16.067 million, which is the major asset of the Titanium Park Joint Venture (which is due to be disestablished) and which is to be allocated to the joint venture partners, of which the company is a 50% partner.</td>
<td></td>
</tr>
<tr>
<td>Titanium Park Joint Venture (Hamilton City Council)</td>
<td>Year ended 30 June 2015</td>
<td>Modified opinion – disclaimers of opinion</td>
</tr>
<tr>
<td></td>
<td>We were unable to form an opinion on the financial statements because we were unable to get enough appropriate audit evidence to support the carrying value of development properties, which are the main assets of the joint venture, and which was stated at the lower of cost and net realisable value. In addition, we drew attention to the disclosures in the financial statements that referred to the financial statements being appropriately prepared on a disestablishment basis because the joint venture parties have agreed to bring the joint venture to an end.</td>
<td></td>
</tr>
</tbody>
</table>

Modified audit opinions – adverse opinions

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year ended</th>
<th>Audit Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sicon Limited and Geotech Limited Joint Venture</td>
<td>Years ended 30 June 2013 and 30 June 2014</td>
<td>Modified opinion – adverse opinion</td>
</tr>
<tr>
<td></td>
<td>The joint venture did not report performance information that reflected the joint venture’s achievements against performance targets because it did not prepare statements of intent. This is a departure from the Local Government Act 2002, which requires a statement of intent and performance information to be prepared. Also, we drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because of the joint venture partners’ decision to wind up the joint venture on 12 June 2015.</td>
<td></td>
</tr>
<tr>
<td>Canterbury Museum Trust Board</td>
<td>Year ended 30 June 2015</td>
<td>Modified opinion – adverse opinion</td>
</tr>
<tr>
<td></td>
<td>The Trustees did not recognise the Trust Board’s museum collection assets it owns, nor the associated depreciation expense, in the Trust’s financial statements. This is not in keeping with Public Benefit Entity International Public Sector Accounting Standard 17 (PBE IPSAS 17): Property, Plant and Equipment, which requires assets to be recognised and depreciated over the useful lives in the financial statements.</td>
<td></td>
</tr>
<tr>
<td>Otago Museum Trust Board</td>
<td>Year ended 30 June 2016</td>
<td>Modified opinion – adverse opinion</td>
</tr>
<tr>
<td></td>
<td>The Trustees did not recognise the Trust Board’s museum collection assets it owns, nor the associated depreciation expense, in the Trust’s financial statements. This is not in keeping with Public Benefit Entity International Public Sector Accounting Standard 17 (PBE IPSAS 17): Property, Plant and Equipment, which requires assets to be recognised and depreciated over the useful lives in the financial statements.</td>
<td></td>
</tr>
</tbody>
</table>
Modified audit opinions – qualified opinions

Christchurch City Council and Group

Year ended 30 June 2016

Because of the effects of the earthquakes on the assets owned by the City Council and group, it has been difficult for the Council to prepare financial statements that comply with generally accepted accounting practice and legislation. As a result, our work was limited – we were unable to obtain sufficient audit evidence about a range of matters:

Valuation of the roading network system, and stormwater system

The Council was unable to quantify the financial effect of unrepaired earthquake damage to its roading network and stormwater systems. As a result, we were unable to confirm that the valuations had adequately accounted for the unrepaired earthquake damage to these assets.

Capital work in progress balance

The Council was unable to accurately determine the value of projects that were operating expenditure in nature and included in the capital work in progress being completed by the Stronger Christchurch Infrastructure Rebuild Team (SCIRT). Further, during the year ended 30 June 2016, the Council treated $54.4 million of costs incurred by SCIRT as capital work-in-progress, which was not in keeping with PBE IPSAS 17: Property, Plant and Equipment, because these costs did not meet the asset capitalisation criteria.

Due to the limitations in scope affecting our audit, we were unable to obtain audit evidence in “what did it cost” sections and the associated variance explanations, including the reported comparative information in the statement of service provision.

Also, we drew attention to the disclosures in the financial statements outlining the Council recognising an impairment expense of $99.5 million relating to Lyttelton Port Company Limited.

Hawke’s Bay Regional Council and Group

Year ended 30 June 2016

Our audit was limited because we could not obtain enough evidence to verify the carrying value of the development expenditure intangible asset for the Ruataniwha Water Storage Scheme, because land exchange required for the Scheme is subject to litigation.

Hawke’s Bay Regional Investment Company Limited and Group (Hawke’s Bay Regional Council)

Year ended 30 June 2016

Our audit was limited because we could not obtain enough evidence to verify the carrying value of the development expenditure intangible asset for the Ruataniwha Water Storage Scheme, because land exchange required for the Scheme is subject to litigation.

Manawatu District Council and Group

Year ended 30 June 2016

Our audit of the District Council’s performance information was limited because we could not get enough assurance about the completeness of response times to attend to and resolve services and faults requests from ratepayers. The District Council was not able to report accurate response time performance measures because the system for recording the response times was not reliable, due to inaccurate or omitted source data.

Titanium Park Limited (Hamilton City Council)

Year ended 30 June 2016

Our audit was limited because we were unable to verify the amount of impairment expense for the development property in 2016. This is because a disclaimer of opinion was issued for the year ended 30 June 2015 when we did not get enough appropriate audit evidence to support the carrying value of the development property.
**Appendix 2**  
*Summaries of the non-standard audit reports issued in 2016*

<table>
<thead>
<tr>
<th>Entity Name</th>
<th>Year Ended</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dunedin City Holdings Limited Group (Dunedin City Council)</td>
<td>Year ended 30 June 2016</td>
<td>Our audit was limited because we could not determine the value of stadium assets, which should have been recognised in the financial statements. This was because the group had not carried out an assessment of the value of the stadium assets on a basis that is consistent with public benefit entity accounting standards.</td>
</tr>
<tr>
<td>Contemporary Art Foundation (Auckland Council)</td>
<td>Year ended 30 June 2015</td>
<td>Our audit was limited because we could not get enough assurance about the fair value of the buildings as at 30 June 2015. This is because the Trust did not obtain a new valuation as at 30 June 2015.</td>
</tr>
<tr>
<td>Invercargill City Holdings Limited Group (Invercargill City Council)</td>
<td>Year ended 30 June 2016</td>
<td>Our audit was limited because the company's group financial statements included unaudited financial information for the year ended 30 June 2016 that related to an associate, IFS Forestry Group Limited, and we were unable to get enough audit evidence to confirm that financial information.</td>
</tr>
<tr>
<td>Invercargill City Forests Limited (Invercargill City Council)</td>
<td>Year ended 30 June 2016</td>
<td>Our audit was limited because company's financial statements included unaudited financial information for the year ended 30 June 2016 that related to an associate, IFS Forestry Group Limited, and we were unable to get enough audit evidence to confirm that financial information.</td>
</tr>
<tr>
<td>Hauraki Rail Trail Charitable Trust</td>
<td>Years ended 30 June 2015 and 30 June 2016</td>
<td>Our audit was limited because we could not get enough assurance about the completeness of commission revenue. The Trustees had limited controls over that revenue.</td>
</tr>
<tr>
<td>The World Buskers’ Festival Trust (Christchurch City Council)</td>
<td>Year ended 30 June 2016</td>
<td>Our audit was limited because we could not get enough assurance about the completeness of door donations revenue for the year ended 30 June 2016. The Trustees had limited controls over that revenue.</td>
</tr>
<tr>
<td>Waimakariri Libraries Trust Incorporated (Waimakariri District Council)</td>
<td>Year ended 30 June 2015</td>
<td>Our audit was limited because we could not get enough assurance about the completeness of fundraising revenue. The Trustees had limited controls over that revenue.</td>
</tr>
<tr>
<td>Waipa Community Facilities Trust (Waipa District Council)</td>
<td>Year ended 30 June 2016</td>
<td>Our audit was limited because we could not get enough assurance about the completeness of the cash receipts. The Trustees had limited controls over those cash receipts.</td>
</tr>
</tbody>
</table>
### Unmodified opinions with “emphasis of matter” paragraphs

<table>
<thead>
<tr>
<th>Organization</th>
<th>Year Ended</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Christchurch City Holdings Limited Group</strong></td>
<td><strong>2016</strong></td>
<td>We drew attention to the disclosures in the financial statements referring to the Group recognising an impairment of $99.5 million of its subsidiary, Lyttelton Port Company Limited. The impairment has arisen because the return generated by replacing destroyed assets did not meet the investment return established by the Board of the Port Company.</td>
</tr>
<tr>
<td><strong>Lyttelton Port Company Limited Group</strong></td>
<td><strong>2016</strong></td>
<td>We drew attention to the disclosures in the financial statements referring to the company recognising an impairment of $99.5 million of assets. The impairment has arisen because the return generated by replacing destroyed assets did not meet the investment return established by the Board of Lyttelton Port Company Limited.</td>
</tr>
<tr>
<td><strong>Command Building Services Limited</strong></td>
<td><strong>2016</strong></td>
<td>We drew attention to the disclosures in the financial statements that referred to the uncertainties surrounding the going concern assumption. The validity of the going concern assumption depends on the company’s reliance on continued financial support from City Care Limited. We also drew attention to the disclosures outlining that the company did not comply with the law because it failed to issue a statement of intent for the year ended 30 June 2016.</td>
</tr>
<tr>
<td><strong>Creative HQ Limited</strong></td>
<td><strong>2016</strong></td>
<td>We drew attention to the disclosures in the financial statements about the uncertainties in measuring the fair value of shares in incubator and accelerator companies. The uncertainties were due to the early stage nature of the investments, the absence of quoted market prices, and the reliance placed on the information supplied by the incubator and accelerator companies.</td>
</tr>
<tr>
<td><strong>NZ Mutual Liability Riskpool</strong></td>
<td><strong>2015</strong></td>
<td>We drew attention to the disclosures in the financial statements that referred to the uncertainties associated with the outstanding claims liability and reinsurance receivables of the Scheme, and the inherent uncertainties involved in estimating those amounts using actuarial assumptions, including in relation to leaky building claims, which are subject to a high degree of uncertainty.</td>
</tr>
<tr>
<td><strong>World Masters Games 2017 Limited</strong></td>
<td><strong>2016</strong></td>
<td>We drew attention to the disclosures in the financial statements that referred to the going concern basis appropriately being used in preparing the financial statements because the company will continue in operation until the World Masters Games in 2017 and its related obligations are completed by 30 June 2017. The Board of Directors have not decided on the future of the company beyond 30 June 2017.</td>
</tr>
</tbody>
</table>
## New Zealand Food Innovation Network Limited

**Years ended 30 June 2013, 30 June 2014, 30 June 2015, and 30 June 2016**

We drew attention to the disclosures in the financial statements about the company not complying with the law by failing to:

- prepare a separate annual report, including financial statements for the period ended 30 June 2012;
- complete its annual report within three months after the end of the reporting periods ended 30 June 2013 to 30 June 2016;
- issue a statement of intent for the years ended 30 June 2013 to 30 June 2016; and
- issue a statement of intent for the four years beginning 1 July 2013, 1 July 2014, 1 July 2015, and 1 July 2016 by 30 June of each previous financial year.

## Feilding Civic Centre Trust (Manawatu District Council)

**Year ended 30 June 2016**

We drew attention to the changes in accounting policies note in the statement of accounting policies, which outlines that the basis of accounting in the financial statements for the year ended 30 June 2015 was incorrectly applied and disclosed as NZ IFRS. As a result, amendments were made to the comparative information as disclosed in accordance with the appropriate basis of accounting, which is PBE Simple Format Reporting – Accrual (PS). We also acknowledged that the audit report for the year ended 30 June 2015 did not identify the use of an incorrect basis of accounting by the Trust.

## Waitangi National Trust

**Year ended 30 June 2016**

We drew attention to the changes in accounting policies note in the statement of accounting policies which outlines that the basis of accounting in the financial statements for the year ended 30 June 2015 was incorrectly applied and disclosed as NZ GAAP Standards (Not-for-profit). As a result, amendments were made to the comparative information as disclosed in accordance with the appropriate basis of accounting, which is Tier 2 PBE Standards (RDR). We also acknowledge the audit report for the year ended 30 June 2015 did not identify the use of an incorrect basis of accounting by the Trust.

## Independent Roadmarkers Taranaki Limited (Waitomo District Council)

**Year ended 30 June 2016**

We drew attention to the disclosures in the financial statements that referred to the non-going concern basis appropriately being used in preparing the financial statements because the company has ceased trading, business assets and liabilities have been sold, and any other obligations settled.

## Oakura Farms Limited Joint Venture (New Plymouth District Council)

**Year ended 30 June 2016**

We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the company has ceased operations and was removed from the Companies Office register effective 15 July 2016.

## South Waikato Economic Development Trust (South Waikato District Council)

**Year ended 30 June 2015**

We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Trustees resolved on 8 June 2015 to wind up the Trust on 30 June 2015.
<table>
<thead>
<tr>
<th>Organization Name</th>
<th>Year Ended</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strada Corporation Limited (Waikato District Council)</td>
<td>Year ended 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements that referred to the realisation basis appropriately being used in preparing the financial statements because the Board has resolved to sell all its operational assets and extinguish all of its liabilities during the year ending 30 June 2017.</td>
</tr>
<tr>
<td>Te Horowhenua Trust (Horowhenua District Council)</td>
<td>Year ended 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements about the financial statements being prepared on a dissolution basis because the Trust ceased with effect from 1 July 2016 when all of its functions, assets, and liabilities were transferred to Horowhenua District Council.</td>
</tr>
<tr>
<td>Wanganui Gas No 1 Limited (Whanganui District Council)</td>
<td>Year ended 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements about the financial statements being prepared on a disestablishment basis because the Directors have resolved to wind up the company and transfer its assets and liabilities to Wanganui Gas Limited.</td>
</tr>
<tr>
<td>Kiwitea Rural Water Scheme</td>
<td>Year ended 30 June 2013</td>
<td>We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Scheme's Committee ceased to administer and operate the Scheme from 30 June 2013.</td>
</tr>
<tr>
<td>New Plymouth Airport Joint Venture (New Plymouth District Council)</td>
<td>Year ended 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Council and the Crown are in negotiation for the Council to purchase the Crown's share in the joint venture, which would result in the Airport Joint Venture arrangement with the Crown being terminated.</td>
</tr>
<tr>
<td>Len Lye Centre Trust (New Plymouth District Council)</td>
<td>Year ended 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Trustees resolved to wind up the Trust prior to 30 June 2017.</td>
</tr>
<tr>
<td>Marlborough Kaikoura Rural Fire Authority</td>
<td>Year ended 30 June 2015</td>
<td>We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Government has decided to establish a new national fire service that will take over the Authority's operations, assets, and liabilities.</td>
</tr>
<tr>
<td>Otago Rural Fire Authority</td>
<td>Years ended 30 June 2015 and 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Government has decided to establish a new national fire service that will take over the Authority's operations, assets, and liabilities.</td>
</tr>
</tbody>
</table>
## Appendix 2
### Summaries of the non-standard audit reports issued in 2016

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year Ended</th>
<th>Report Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Rural Fire Authority</td>
<td>Year ended 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Government has decided to establish a new national fire service that will take over the Authority’s operations, assets, and liabilities.</td>
</tr>
<tr>
<td>Vision Manawatu Trust Incorporated (Palmerston North City Council and Manawatu District Council)</td>
<td>Year ended 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements because the Trust will be wound up during September 2016.</td>
</tr>
<tr>
<td>Tauwhareparae Forests Limited (Gisborne District Council)</td>
<td>Year ended 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements of the company not having a statement of service performance because it was inactive and did not have any performance to report. The disclosures also outlined that the company did not comply with the law because it failed to complete a statement of intent for the period beginning 1 July 2016 by 30 June 2016.</td>
</tr>
<tr>
<td>Apex Environmental Limited (Christchurch City Council)</td>
<td>Year ended 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements about the company not complying with the law because it failed to prepare a statement of intent for the year beginning 1 July 2015.</td>
</tr>
<tr>
<td>Christchurch City Mayor’s Welfare Fund Charitable Trust (Christchurch City Council)</td>
<td>Year ended 30 June 2015</td>
<td>We drew attention to the disclosures in the financial statements about the trust not complying with the law because it failed to prepare a statement of intent for the period beginning 1 July 2014.</td>
</tr>
<tr>
<td>City Care Ltd and John Fillmore Contracting Ltd Joint Venture (Christchurch City Council)</td>
<td>Years ended 30 June 2015 and 30 June 2016</td>
<td>We drew attention to the disclosures in the financial statements that referred to the joint venture breaching the law because it failed to prepare a statement of intent for the period ended 30 June 2015 and the periods beginning 1 July 2015 and 1 July 2016 by 30 June of the previous financial year.</td>
</tr>
</tbody>
</table>
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