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## **DRAFT 2008/2009 FINANCIAL STATEMENTS AND PROPOSED SIGN-OFF PROCESS**

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### **1. Purpose**

The purpose of this report is to obtain the agreement of the Subcommittee as to the proposed format and disclosures for the Council's 2008/09 financial statements and the associated sign-off process for those financial statements.

### **2. Recommendation**

Officers recommend that the Subcommittee:

1. *Receive the information.*
2. *Note that the proposed 2008/09 financial statements template has recently been reviewed by Audit New Zealand and that their comments/recommendations have been reflected in the template.*
3. *Approve the proposed format and disclosures for the 2008/09 financial statements subject to:*
  - (a) *consideration of the implications of any changes in NZ GAAP arising up to 30 June 2009 which may be required to be applied retrospectively.*
  - (b) *the determination and disclosure of the final results of operations, cashflows and financial position for the year ending 30 June 2009 (and any subsequent impact on the notes to the financial statements); and*
  - (c) *receiving final clearance from Audit New Zealand.*
4. *Approve the sign-off process and timetable for the 2008/09 financial statements (refer Appendix 1).*

### **3. Background**

Section 98 of the LGA 2002 requires the Council to prepare and adopt an Annual Report containing specified disclosures within four months after the end of the financial year. Section 111 of the LGA 2002 requires Council to comply with generally accepted accounting practice (GAAP) in preparing the Annual Report.

Council officers propose to prepare the 2008/09 Annual Report for adoption on 26 August 2009. In order to achieve this timeframe, a draft template has been prepared for the Subcommittee's review which identifies the proposed financial statement format and disclosures. This report also outlines the proposed sign-off process and timetable for the adoption of the 2008/09 Annual Report.

The template has recently been reviewed by Audit New Zealand as part of their financial statements audit for the year ending 30 June 2009 and their comments/recommendations have been incorporated.

### **4. Significant Changes in the Content and Format of the Council's Financial Statements**

#### ***4.1 PROCESS***

The template has been drafted by the Council's Financial Accounting team. We are cognisant of the need to modify the presentation of the financial statements to maintain best practice and improve readability where possible. A process of review was undertaken looking at recently published annual reports prepared in accordance with NZ IFRS and other relevant material (NZ IFRS models, NZ IFRS updates and pending changes to NZ IFRS). In addition, prior to 30 June 2009, we will review the presentation and content of the financial overview and the annual report summary.

It is important to note that the template reflects applicable NZ IFRS as at the date of preparation. It will be updated to reflect ongoing amendments to NZ IFRS between the date of preparation and the date of the next Subcommittee meeting.

#### ***4.2 CHANGES IN THE FINANCIAL STATEMENTS TEMPLATE***

The key changes to the financial statements include:

##### ***□ Statement of Comprehensive Financial Performance***

The main change to our proposed financial statement template for the 2008/09 year is due to amendments to the requirements of NZ IAS 1: Presentation of Financial Statements. This standard now requires a Statement of Comprehensive Financial Performance to be prepared. In addition to the

income and expenses normally reported in the Statement of Financial Performance, all non owner increases or decreases in Equity are now required to be recorded as other comprehensive income, thus forming the Statement of Comprehensive Financial Performance.

While the preparation of this statement is not mandatory until next financial year, we propose to early adopt. We were required to report using this statement for the LTCCP which covers the ten year period and we recommend maintaining a consistent presentation with the LTCCP financial statements. The format of the statement has been approved by Audit New Zealand as part of the audit of the draft LTCCP. Where possible we have increased the disclosure in the box below this statement and in the Financial Overview to explain how this statement translates into the underlying surplus or deficit. This is discussed further in section 5.3.

□ ***Notes to the Financial Statements***

- *Note 17: Property, Plant and Equipment/ Note 19: Borrowings* –We have increased the disclosure in these notes to include finance leases identified during the current year.
- *Note 28: Financial Instruments* – Following a review of model financial statements we have increased the disclosure in this note to include a table detailing the categorisation of our financial assets and liabilities.
- *Note 17: Property, Plant and Equipment* – We have increased the disclosure of the agreement we have in place with United Water to operate the Clearwater Sewerage Treatment Plant (Moa Point) on our behalf.

## **5. Significant areas of focus for the Financial Statements for the year ending 30 June 2009**

Significant areas of focus identified to date as part of the preparation of the financial statements for the year ended 30 June 2009 are as follows:

### ***5.1 Asset Revaluation***

The Council revalues certain classes of property, plant and equipment on a rolling three year cycle. Revaluations are staggered over the three year period to spread the cost and workload involved. Classes of property, plant and equipment due to be revalued as at 30 June 2009 are operational land and buildings. Of the other classes subject to the revaluation model, infrastructure and library assets were last revalued at 30 June 2008. At this point, these classes are one year into their three yearly revaluation cycle.

Investment properties will also be revalued at 30 June 2009.

Audit New Zealand has advised that an area of focus is to review the off-cycle classes to ensure their fair values do not vary materially from carrying values. We have reviewed these classes, applying appropriate indices and determined that there is no indication that fair values have shifted materially since the valuations were completed at 30 June 2008 which would necessitate an off-cycle revaluation. This is currently being reviewed by Audit New Zealand.

### ***5.2 Impairment of Assets.***

The Council is required to regularly consider impairment in accordance with NZ IAS 36: Impairment of Assets. Given the current economic climate and its potential impact on asset values, this is a particular area of focus for 2008/09. We are looking closely at all of our assets to ensure that we have appropriately reflected any impairment issues. At the next Subcommittee meeting we will provide further information on the overall impairment for the 2008/09 financial year.

### ***5.3 General Explanation of Surplus/Deficit***

We continue to strive to make the financial statements as readable and understandable as possible for our residents. Given the changes in the financial statement presentation and potential influence of fair value changes on the reported surplus, we are proposing further explanatory material this year.

With the proposed introduction of the Statement of Comprehensive Financial Performance, we propose to use the box under the statement to discuss and explain the new components introduced in this statement. We will also use the Financial Overview to reconcile from Total Comprehensive Income back to the underlying financial performance, including an explanation of accounting adjustments such as fair value movements and changes in the fair value of our interest rate swaps. This will include an explanation of how our underlying financial performance compares to the budgeted surplus/deficit. These additional disclosures are in excess of what is required under NZ GAAP but we consider it is important to communicate this to our readers.

## **6. Year-end Financial Results**

This report has focused on the template for the year-end financial statements and the disclosures contained therein. Any significant movements or issues arising from the year-end results will be reported to the Subcommittee during the scheduled year end meeting on 19 August 2009.

## **7. Proposed Sign-off Process for the 2008/09 Financial Statements**

On the basis that the Subcommittee has been delegated the primary responsibility for the audit of the Council's financial statements, a proposed sign-off process and timetable has been developed in order to adopt the 2008/09 Annual Report. This is outlined in Appendix 1 to this report.

## **8. Conclusion**

Section 98 of the Local Government Act 2002 requires the Council to prepare and adopt an Annual Report that includes audited financial statements. The Act requires that the financial statements be prepared in accordance with NZ GAAP.

The attached financial statements template has been prepared for the Subcommittee's review and approval, as part of the overall sign-off process for the 2008/09 Annual Report.

Accordingly, it is recommended that the Subcommittee approve the reporting template for use in preparing the final consolidated financial statements subject to:

- consideration of the implications of any changes in NZ GAAP arising up to 30 June 2009 which may be required to be applied retrospectively
- the final determination and disclosure of the results of operations, cashflows and financial position for the year ending 30 June 2009 (and any subsequent impact on the Notes to the financial statements);
- reviewing the Statement of Service Performance, report on council-controlled organisations and report on mana whenua partnership; and
- receiving final audit clearance from Audit New Zealand.

In addition, it is recommended that the Subcommittee approves the proposed sign-off process and timetable as detailed in Appendix 1.

Contact officer: *Helen Rogers*  
*Financial Controller*

<b>Supporting Information</b>
<p><b>1) Strategic Fit/Strategic Outcome</b></p> <p><i>This project supports Strategy 7: Governance: As per the Annual Plan, Governance includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.</i></p>
<p><b>2) LTCCP/Annual Plan reference and long term financial impact</b></p> <p><i>Relates to C534: Committee and Council process</i></p>
<p><b>3) Treaty of Waitangi considerations</b></p> <p><i>There are no Treaty of Waitangi implications</i></p>
<p><b>4) Decision-Making</b></p> <p><i>This is not a significant decision</i></p>
<p><b>5) Consultation</b></p> <p><b>a) General Consultation</b></p> <p><i>Not required</i></p> <p><b>b) Consultation with Maori</b></p> <p><i>Not required</i></p>
<p><b>6) Legal Implications</b></p> <p><i>None</i></p>
<p><b>7) Consistency with existing policy</b></p> <p><i>This report is consistent with existing Wellington City Council policy</i></p>

## APPENDIX ONE

### PROPOSED SIGN-OFF PROCESS AND TIMETABLE FOR THE 2008/09 ANNUAL REPORT

<b>Date:</b>	<b>Action:</b>
12 June 2009	Subcommittee to review and conditionally approve draft format for the 2008/09 financial statements and the proposed sign-off process.
3 August 2009	Audit New Zealand commence final audit fieldwork
<b>10 August 2009</b>	Consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2009 and financial position as at 30 June 2009 available for final internal review.
<b>19 August 2009 (scheduled)</b>	<i>Audit and Risk Management Subcommittee Meeting</i>  Subcommittee to review consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2009 and financial position as at 30 June 2009, subject to Audit New Zealand clearance. Subcommittee to also review Statements of Service Performance, report on CCOs and report on mana whenua partnership.  Subcommittee to recommend adoption of 2008/09 financial statements to Strategy and Policy Committee.
<b>21 August 2009</b>	<i>Audit New Zealand to issue letter of comfort to Strategy and Policy Committee as to whether an unqualified, or qualified, audit opinion will be issued.</i>
<b>26 August 2009 (scheduled)</b>	<i>Special Strategy and Policy Committee Meeting</i>  Committee to recommend adoption of 2008/09 financial statements to Council.
<b>26 August 2009 (scheduled)</b>	<i>Council Meeting</i>  Council to adopt 2008/09 financial statements. Management Letter of Representation issued to

**Date:****Action:**

Audit New Zealand.  
Audit New Zealand sign Audit Opinion.  
Media Release – Financial Results for the year  
ending 30 June 2009.

**29 September  
2009**

Release of published Annual Report.



## **APPENDIX TWO**

### **DRAFT 2008/09 FINANCIAL STATEMENTS**