
**DRAFT 2005/2006 FINANCIAL STATEMENTS AND
PROPOSED SIGN-OFF PROCESS**

1. Purpose of Report

The purpose of this report is to obtain the agreement of the Subcommittee as to the proposed format and disclosures for the Council's 2005/06 financial statements and the associated sign-off process for those financial statements.

2. Recommendations

It is recommended that the Subcommittee:

1. *Receive the information.*
2. *Note that the draft 2005/06 financial statements reporting template has been reviewed by Audit New Zealand and that their comments/recommendations have been adopted as appropriate.*
3. *Approve the proposed format and disclosures for the 2005/06 financial statements subject to:*
 - (a) *the determination and disclosure of the final results of operations, cashflows and financial position for the year ending 30 June 2006 (and any subsequent impact on the Notes to the financial statements); and*
 - (b) *receiving final clearance by Audit New Zealand.*
4. *Approve the sign-off process for the 2005/06 financial statements (refer Appendix 1).*

3. Consultation

The draft 2005/06 financial statements reporting template (as attached to this report) has been reviewed by Audit New Zealand as part of their current audit. Audit New Zealand has confirmed that the proposed format and disclosures comply with generally accepted accounting practice (GAAP) and therefore the requirements of the Local Government Act 2002 (LGA 2002) and the Financial Reporting Act 1993.

4. 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 the Council to comply with generally accepted accounting practice (GAAP) in preparing the Annual Report. GAAP is defined by the Accounting Standards Review Subcommittee to encompass all Financial Reporting Standards (FRSs) and other sources of appropriate authoritative support (for example; exposure drafts of financial reporting standards, international accounting standards etc). Non-compliance with GAAP and FRSs would therefore represent a breach of the LGA 2002.

Council Officers will prepare the 2005/06 Annual Report for adoption on 30 August 2006. In order to achieve this timeframe, a draft reporting template has been prepared for the Subcommittee's review. The reporting template identifies the proposed Financial Statement format and disclosures. This report also outlines the sign-off process for the adoption of the 2005/06 Annual Report.

5. Discussion

The draft 2005/06 financial statements template is attached to this report for the Subcommittee's review and approval (refer Appendix 2).

5.1 *Significant Changes in the Content and Format of the Council's Financial Statements*

As indicated above, s111 of the LGA 2002 requires the Council to prepare its financial statements in accordance with GAAP. The content and format of the Council's financial statements is therefore largely prescribed by the New Zealand FRSs, issued by the Accounting Standards Review Subcommittee.

As the Subcommittee is aware, this is the last financial reporting period before the transition to NZ IFRS. As these are the last financial statements to be prepared in accordance with current NZ financial reporting standards, we have not made significant changes to the format used in 2004/05.

The exception to this is the inclusion of some additional disclosures to reflect the imminent application of NZ IFRS. The Council has been preparing for the transition by drafting an NZ IFRS compliant financial statements template for the 30 June 2007 financial year. To mark the transition and to begin to seamlessly integrate the new regime, we have included some of the new NZ IFRS disclosures from the template in the 30 June 2006 financial statements. This is permitted where the additional disclosure is not inconsistent with the Council's current accounting policies or current NZ GAAP.

The key changes / enhancements to the financial statements include:

□ ***Statement of Financial Position***

- The changes in the Statement of Financial Position are all intended to smooth the transition to NZ IFRS.
- The former "receivables, accruals and inventory" balance has been separated out into "trade and other receivables" and "inventory".
- Employee entitlements have been separately disclosed on the face of the Statement of Financial Position.
- There has been a slight change in the format of the Statement of Financial Position – replacing the net assets disclosure with total equity and liabilities.

□ ***Statement of Cash Flows***

- Additional disclosure has been made in accordance with best practice under NZ IFRS. For example, we have separately disclosed government grants and subsidies.

□ ***Statement of Accounting Policies***

- Accounting policies have remained largely consistent with 30 June 2005. So, the policies are still in accordance with NZ GAAP (not NZ IFRS).
- The only changes relate to Property, Plant and Equipment (P,P&E). We conducted a review of valuation methodologies as part of the preparation for NZ IFRS. This has resulted in two changes to the valuation methodologies for respective classes of P,P &E, as follows:
 - Restricted assets (land and buildings) have moved from the revaluation to the historical cost model (refer para 5.2.1)
 - Land under roads has moved from the revaluation to the historical cost model (refer para 5.2.1)
- The change in accounting policies note reflects the impact of these changes.

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

- Note 1 – *Rates and levies* includes a breakdown of general rates into base and commercial
- Note 2 – *Revenue from activities* has changed from the former output analysis (eg animal control, berths and boat sheds etc) to an input approach (eg government grants and subsidies). This is in line with NZ IFRS requirements. Further detail on the nature of income from services has been included as a breakdown of the "Rendering of Services" category.

- Note 11 and 12 – *Investment Properties and Properties Intended for Sale* has been split into two notes (previously combined in one).
- Note 15 – *Borrowings* includes disclosure of borrowings facilities available.
- Note 16 – *Employee entitlements* is a new note, combining disclosures on provision movements relating to employees (eg long service leave).
- Note 17 – *Provisions for other liabilities* includes all other provisions (eg landfill, other statutory and legal)
- Note 19 – *Revaluation Reserves – Investment Properties* has been separated from the main revaluation reserves note.
- Note 35 – *Related Party Disclosures* has combined the directors’ disclosures, and chief executives remuneration notes together to reflect the increased scope of related parties which will be required under NZ IFRS.
- Note 38 – *First time adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS)* discloses information required in accordance with FRS-41: Disclosing the Impact of Adopting NZ IFRS.

In addition to the financial statement changes outlined in this section, we are planning to further enhance other annual report disclosures, including the Financial Overview. To ensure this information is up-to-date, the content will be drafted after balance date and reported to the Subcommittee at the August 2006 meeting.

5.2 Significant Matters affecting the Financial Statements for the year ending 30 June 2006

The following significant matter has been identified as part of the preparation of the financial statements for the year ended 30 June 2006:

5.2.1 Changes in Accounting Policy

The Council has historically applied the revaluation model to certain classes of P, P&E. However, FRS-3: *Accounting for Property, Plant and Equipment* permits the Council to change the basis of measurement to the cost model where:

- the change will result in information about the class of asset that is more relevant or reliable; or
- Continual revaluations for that class of asset cannot be justified for materiality or cost-benefit reasons.

As noted in paragraph 5.1 above, the template for the 30 June 2006 financial statements includes two changes to valuation methodologies:

- Restricted land and buildings, which were previously revalued on a three yearly basis, will no longer be revalued
- Land under roads will be carried at deemed cost at 30 June 2005, adjusted for subsequent additions and disposals.

Both land under roads, and restricted land and buildings have been revalued in the past. It is now proposed that the revaluation model is suspended for these classes. The proposed change reflects decisions made by the Subcommittee during the finalisation of

the NZ IFRS statement of accounting policies during the preparation of the 2006/07 LTCCP. A report to the Subcommittee on 5 December 2005 stated:

“The Council should continue to revalue the classes of assets that are currently revalued with the exception of land under roads and restricted assets. Adopting the revaluation model for most asset classes ensures the assets’ values are relevant and accurate and also ensures, for depreciable assets, that depreciation will be based on the replacement value of assets. This approach is also consistent with others in the local authority sector.

During the finalisation of the annual report for the year ending 30 June 2005, land under roads was revalued for the purpose of ensuring the most accurate value for the opening NZ IFRS Statement of Financial Position. At the time it was noted that there was no intention to continue with a revaluation cycle beyond 30 June 2005. This is in accordance with the practice of other local authorities who do not revalue the land under roads asset.

Restricted assets were also revalued during the 30 June 2005 annual reporting process. Restricted assets are inherently difficult to value due to a lack of available market information, which therefore results in a highly subjective approach to the valuation process and methodology. Specifically, due to the lack of directly comparable sales evidence, any value assessments of open space zoned land, particularly that subject to the Reserves Act or Town Belt Deed, will be very subjective. This class of assets has experienced significant fluctuations in value as a result of the valuation difficulties. These issues result in the conclusion that continual revaluations for this class of asset cannot be justified for cost-benefit reasons.

It is therefore recommended that the Council choose the cost model in accounting for both land under roads and restricted assets. The carrying values of these assets at 1 July 2005 will constitute their deemed cost.”

This recommendation was accepted by the Subcommittee and applied within the first NZ IFRS Statement of Accounting Policies for the 2006/07 to 2015/16 LTCCP. It is therefore now recommended that the change in treatment is reflected in the Statement of Accounting Policies for the 30 June 2006 financial year.

5.3 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 next scheduled meeting on 21 August 2006.

5.4 Proposed Sign-off Process for the 2005/06 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 2005/06 Annual Report. This is outlined in Appendix 1 to this report.

6. 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 GAAP.

The attached financial statements reporting template has been prepared for the Subcommittee's review and approval, as part of the overall sign-off process for the 2005/06 Annual Report. The presentation and disclosure of the draft financial statements has been reviewed by Audit New Zealand who have confirmed that the draft reporting template complies with applicable GAAP requirements.

Overall, the nature and extent of disclosure in the draft financial statements is consistent with that adopted for the 2004/05 financial statements with the exception of enhancements made to improve the nature and level of disclosure to readers.

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

- ❑ the final determination and disclosure of the results of operations, cashflows and financial position for the year ending 30 June 2006 (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 as detailed in Appendix 1.

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MANAGER – FINANCIAL ACCOUNTING

Supporting Information

1) Strategic Fit / Strategic Outcome

The report supports Council's overall vision of Creative Wellington – Innovation Capital by ensuring a proactive approach to financial reporting requirements .

2) LTCCP/Annual Plan reference and long term financial impact

There is no impact on the LTCCP or Annual Plan.

3) Treaty of Waitangi considerations

There are no Treaty of Waitangi considerations.

4) Decision-Making

The paper does not require any significant decisions. The paper is intended to gain early approval for the proposed format and disclosures, and sign-off process for the 2005/06 Annual Report.

5) Consultation

a) General Consultation

There are no parties significantly affected by this paper.

b) Consultation with Maori

Maori are not significantly affected by this paper.

6) Legal Implications

There are no legal implications of this paper. This report ensures compliance with GAAP which is a legal requirement of the Local Government Act 2002.

7) Consistency with existing policy

This report is consistent with existing policy.

APPENDIX 1

PROPOSED SIGN-OFF PROCESS AND TIMETABLE FOR THE 2005/06 ANNUAL REPORT

Date:	Action:
6 March 2006	Audit New Zealand commenced interim audit visit 1 (2 weeks)
5 June 2006	Audit New Zealand commence interim audit visit 2 (1 week)
27 June 2006	Subcommittee to review and approve draft format for the 2005/06 financial statements and the proposed sign-off process.
7 August 2006	Audit New Zealand commence final audit fieldwork (4 weeks)
14 August 2006	Final consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2006 and the financial position as at 30 June 2006 available for final internal review.
21 August 2006 (scheduled)	Audit and Risk Management Subcommittee Meeting Subcommittee to review final consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2006 and the financial position as at 30 June 2006, 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 2005/06 financial statements to Strategy and Policy Committee.
25 August 2006	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.

**30 August 2006
(scheduled)**

Special Strategy and Policy Committee Meeting

Committee to recommend adoption of 2005/06 financial statements to Council.

**30 August 2006
(scheduled)**

Special Council Meeting

Council to adopt 2005/06 financial statements.
Management Letter of Representation issued to Audit New Zealand.
Audit New Zealand sign Audit Opinion.
Media Release – Financial Results for the year ending 30 June 2006.

29 September 2006

Release of published Annual Report.

APPENDIX 2

DRAFT 2005/06 FINANCIAL STATEMENTS