

REPORT 3
(1215/52/01/1M)

**DRAFT 2012/13 FINANCIAL STATEMENTS, DRAFT FINANCIAL
OVERVIEW 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 2012/13 financial statements, the format of the financial overview and the associated sign-off process for those financial statements.

2. Recommendations

Officers recommend that the Audit and Risk Management Subcommittee:

1. *Receive the information.*
2. *Note that the 2012/13 financial statements template has recently been reviewed by Audit New Zealand and that their comments/recommendations have been reflected in the template.*
3. *Note that all new standards, amendments and interpretations which are applicable for the 2012/13 financial statements have been considered by officers (refer Appendix 1) and notes that we are not planning to early adopt any new standards, amendments and interpretations.*
4. *Approve the proposed format and disclosures for the 2012/13 financial statements subject to:*
 - (a) *consideration of the implications of any changes in NZ GAAP arising up to 30 June 2013 which may be required to be applied retrospectively;*
 - (b) *the determination and disclosure of the final results of operations, cash flows and financial position for the year ending 30 June 2013 (and any subsequent impact on the notes to the financial statements); and*
 - (c) *receiving final clearance from Audit New Zealand.*
5. *Approve the sign-off process and timetable for the 2012/13 financial statements (refer Appendix 2).*
6. *Approve the proposed format of the financial overview template for the 2012/13 financial year (refer Appendix 4),*

3. Background

Section 98 of the Local Government Act 2002 (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 2012/13 Annual Report for adoption on 28 August 2013. 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 2012/13 Annual Report.

The template for the financial statements has recently been reviewed by Audit New Zealand as part of their financial statements audit for the year ending 30 June 2013 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 mindful of the need to modify the presentation of the financial statements to maintain best practice. 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, we will also review the presentation and content of the annual report summary.

Throughout the year we consider amendments made to NZ IFRS and update the Subcommittee with any implications for the Council. A full listing of all new standards, amendments and interpretations which are applicable for the 2012/13 financial statements are shown in Appendix 1. Where the adoption of these new or revised standards is mandatory for the 2012/13 financial statements, any required changes have been included in the template. The Council is not proposing to early adopt any standards, amendments or interpretations.

It is important to note that the template reflects applicable NZ IFRS as at the date of preparation. If necessary, 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 Key changes in the financial statements template

Key changes to the draft financial statements template (Appendix 3) are shown in shaded grey. The key changes to the financial statements include:

- No significant changes in accounting standards or new standards introduced.
- To maintain consistency with the Annual and Long-Term Plans, receipts from water rates by meter are disclosed separately in the Statement of Comprehensive Income and the Statement of Cash Flows. The change was due to requirements of the Local Government (Financial Reporting) Regulations 2011.
- A calculation of the Net Borrowings position of Council has been included in Note 20: Borrowings.
- Note 43: Remuneration and Staffing has been amended to include an analysis of total FTE's employed by Council as at 30 June 2013 and their salary bands. This has been included due to the additional disclosure requirements now required in the Local Government Act 2002.
- Additional disclosures relating to non-residential leaky building claims have been included in Note 37: Contingencies.
- The table in Note 9 Deferred Tax Assets and Liabilities has been simplified to only show the movement in the recognised deferred tax assets and liabilities. It previously reported the movements in the recognised and unrecognised deferred tax assets and liabilities. The new table is consistent with the requirements of the existing NZ IAS 12 *Income Taxes* and the new NZ PBE IAS 12 *Income Taxes*.
- Continuing focus on “plain English”

Throughout the whole Annual Report process our focus will be on “plain English” financial reporting as we continue to strive to make the financial statements as readable and understandable as possible for our residents while still meeting the compliance requirements of NZ GAAP and the Local Government Act.

5. Significant areas of focus for the financial statements for the year ending 30 June 2013

Significant areas of focus identified to date as part of the preparation of the financial statements for the year ended 30 June 2013 are as follows:

- Reassessment of fair values / impairment testing

The Council conducts revaluations of 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. We are required to review the off-cycle classes to ensure that the carrying value of these assets is not materially different from fair value.

Other than Investment properties no asset classes are due for revaluation this financial year, of the asset classes subject to the revaluation model, libraries and infrastructural assets were last revalued at 30 June 2011 and operational land and buildings were last revalued at 30 June 2012.

We reviewed the off-cycle classes of property, plant and equipment, applying appropriate indices. The increase in asset value of 1.6% was not considered material and accordingly we concluded that there is no indication that fair values have shifted materially since the last valuations were completed which would necessitate an off-cycle revaluation. This conclusion has been accepted by Audit New Zealand.

- **Investment property revaluation**

Investment properties comprise ground leases as well as land and buildings held for investment purposes (commercial rental or capital growth). In accordance with NZ IAS 40: Investment Property, these are revalued annually to market value and all changes in fair value are shown within the surplus or deficit. All investment properties (including those in the Wellington Waterfront Project), will be revalued as at 30 June 2013.

- **Impairment of Assets**

The Council is required to regularly consider impairment in accordance with NZ IAS 36: Impairment of Assets. Given the difficult economic climate over the last few years and its potential impact on asset values, this remains a particular area of focus for 2012/13. 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 2012/13 financial year.

- **Weathertightness (leaky homes) provision**

Exposure to liabilities from leaky home claims remains a significant issue for both the Council and wider sector. The Council is in the process of reviewing the assessment of the leaky homes provision. Discussions with our actuaries and other local authorities are underway in order to assess the impact of the recently Supreme Court decision on non-residential leaky building claims to ensure appropriate disclosure in our financial statements.

6. Financial overview

The draft template for the Financial Overview is included in Appendix 4. By necessity the template for the financial overview requires figures to be included for the 2012/13 year. The 2012/13 figures are not yet available. The 2012/13 figures shown in the financial overview are a repeat of the figures from 2011/12.

7. Funding Impact Statements

The Local Government (Financial Reporting) Regulations 2011 requires that Funding Impact Statements for both groups of activities and the whole of council be included in the Annual Report. The format of the funding impact statements is prescribed by the legislation and will be presented as a separate section in the Annual Report.

8. Year-end financial results

This report has focused on the template for the year-end financial statements, the disclosures and financial overview. Any significant movements from budgeted results or issues arising will be reported to the Subcommittee during the scheduled year-end meeting on 19 August 2013.

9. Proposed sign-off process for the 2012/13 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 2012/13 Annual Report. This is outlined in Appendix 2 to this report.

10. 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 and overview template have been prepared for the Subcommittee's review and approval, as part of the overall sign-off process for the 2012/13 Annual Report.

Accordingly, it is recommended that the Subcommittee approve the reporting template for use in preparing the final consolidated financial statements and financial overview.

In addition, it is recommended that the Subcommittee approves the proposed sign-off process and timetable as detailed in Appendix 2.

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New standards, amendments and interpretations applicable for the 2012/13 financial statements

Standard with amendment / New standard	Application date	Nature of amendment	Impact for the Council
NZ IAS 12	1 January 2012	Deferred Tax: Recovery of Underlying Assets	The Council does not anticipate any significant impact on its financial statements.
NZ IFRS 9 (2009)	1 January 2013	NZ IFRS 9: Financial Instruments	Will affect the categories under which financial assets are classified, but will have no impact on the values currently reported in the Annual Report.
NZ IFRS 9 (2010)	1 January 2015	Amendments to IFRS 9: Fair Value Option for Financial Liabilities	The Council does not anticipate any significant impact on its financial statements.

NOTE: This list does not include any new standards or interpretations that are not applicable to PBEs.

APPENDIX 1

This report is officer advice only. Refer to minutes of the meeting for decision.

Proposed sign off process and timetable for the 2012/13 Annual Report

Date:	Action:
17 June 2013 (scheduled)	<i>Audit and Risk Management Subcommittee Meeting</i> Subcommittee to review and conditionally approve draft format for the 2012/13 financial statements, the format for the 2012/13 financial overview and the proposed sign-off process.
29 July 2013 1 August 2013	Audit New Zealand commence final audit fieldwork Consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2013, financial position as at 30 June 2013 and financial overview available for final internal review and management sign off.
August 2013 To be scheduled 19 August 2013 (scheduled)	Audit and Risk Management Subcommittee briefing on major provisions and issues. <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 2013, financial position as at 30 June 2013 and financial overview, subject to final Audit New Zealand clearance. Subcommittee to also review Statements of Service Performance, report on CCOs and report on mana whenua partnership.
	Subcommittee to review the draft letter of representation letter.
	Subcommittee to recommend adoption of 2012/13 financial statements to Strategy and Policy Committee and the letter of representation.
28 August 2013 (scheduled)	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>Strategy and Policy Committee Meeting</i> Committee to recommend adoption of 2012/13 financial statements to Council.
28 August 2013 (scheduled)	<i>Council Meeting</i> Council to adopt 2012/13 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 2013.
27 September 2013	Release of published Annual Report.

APPENDIX 2

Appendix 3: Draft 2012/13 financial statements

APPENDIX3

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Appendix 4: Draft 2012/13 financial overview

APPENDIX 4

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SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

This project supports strategic area of focus 1: 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.

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

Relates to C534: Committee and Council process.

3) Treaty of Waitangi considerations

There are no specific Treaty of Waitangi considerations.

4) Decision-making

There are no significant decisions required by the paper.

5) Consultation

a) General consultation

Not required.

b) Consultation with Maori

Not required.

6) Legal implications

This report has no specific legal implications.

7) Consistency with existing policy

This report is consistent with existing policy.