

SOLGM Financial Management Working Party

Newsletter #3 – March 2006 – LTCCP Audit Update

The Working Party met in Wellington on Friday 24 February. A major item on the agenda was a report from OAG on progress to date with the audit of draft LTCCPs. This newsletter outlines issues and information arising from this report and the discussion of it.

OAG Update

Bruce Robertson reported on where the process has got to. Many local authorities had delivered material to auditors late. To date 14 had come due and of these only 7 had been received on time. Of these 3 has received unqualified opinions and 3 more were in the final stages and likely to.

Congestion and Prioritisation

There was significant risk of congestion during March and April when larger numbers were due. OAG was asked to provide a statement of how auditors would prioritise during the peak auditing period between those drafts that were being received when due, and those which were arriving late.

OAG has advised that:

“The OAG approach is, in the first instance, to seek to accommodate all audits within the timeline desired by the local authority (as these are normally based on Council meeting dates); however should priority need to be given, it will be to those Councils who are proceeding on their previously advised timetable. Those seeking to delay their timetable from that previously advised may, in the pressure period during March and April, be given a lower priority”.

Key issues

OAG had identified eight key issues from the work to date. These were:

- ***Excessive focus on the “bottom-up” aspects.*** This could result in a plan that “added-up” but left issues about whether the results quite stacked up when viewed top-down from a strategic perspective. There were sometimes inconsistencies between policies e.g. between revenue and finance policies, or when all activities were assembled together, they did not necessarily represent a coherent overall financial strategy.
- ***Performance Management Frameworks underdeveloped.*** Some councils had done this really well, but with others the linkages in the flow between community outcomes, levels of services, performance measures and performance targets were not that strong. Some local authorities had more work to do on this.
- ***Growth.*** This was the key assumption that seemed to be least well dealt with. There were instances where standard assumptions were not reflected consistently across all

aspects of the plan, or Council did not consider the nature of growth and its effects – for example, economic growth without population growth may still have impacts on councils which should be considered.

- **CAPEX.** There were some big numbers here as local authorities looked to signal use of debt to fund the work necessary to meet community aspirations. The overall pattern of forecast debt across local authorities over the 10 years of the plans is of interest to central government. This was something the LG Funding Review would be looking at. Attention was drawn to FRS-42 and the need for the uncertainty about the more distant years to be signaled.
- **Framing the Community Debate.** OAG is generally pleased that local authorities were putting the key issues up front for communities to consider.
- **Modeling in Budgets.** It is the consistent application of assumptions in modeling was key and that drivers for individual numbers needed to be identified.
- **Asset Management Information.** OAG were comfortable that information in the plans so far dealt with is backed up by underlying data. There was still work to do, however, in getting asset information right, with condition assessment an area for attention.
- **FRS-42** – The ASRB had approved the application of FRS - 42 to the preparation of the 2006/16 LTCCPs and that this constituted GAAP under section 111 of the LGA2002.

Price Level Changes in LTCCP

- OAG was asked to clarify the position auditors would take about concerning the inclusion of information within the LTCCP that showed forecast financial information exclusive of expected price level changes. A statement is to be issued by OAG clarifying this. [Note: This is dealt with in Auditing the Future newsletter 9 which you can access at <http://www.oag.govt.nz/ltccp/docs/newsletter-9.pdf>]

Local Authorities that have Completed the Audit Process

As of the 5 March the local authorities who had completed the process were:

- ◆ Waimakariri DC
- ◆ Taranaki Regional Council
- ◆ Environment Canterbury
- ◆ Stratford DC
- ◆ Dunedin CC
- ◆ Tauranga CC
- ◆ Hurunui DC