



TO THE MAYOR AND COUNCILLORS OF THE MACKENZIE DISTRICT COUNCIL

MEMBERSHIP OF THE FINANCE COMMITTEE

Graham Smith (Chairman)	
Claire Barlow (Mayor)	John Bishop
Peter Maxwell	Annette Money
Graeme Page	Evan Williams

*Notice is given of a meeting of the Finance Committee
to be held on Tuesday 1 February 2011 at 9.30 am*

VENUE: Council Chambers, Fairlie

BUSINESS: As per agenda attached

GLEN INNES
CHIEF EXECUTIVE OFFICER

26 January 2011



AGENDA FOR TUESDAY 1 FEBRUARY 2011

I APOLOGIES

II DECLARATIONS OF INTEREST

III MINUTES

Confirm and adopt as the correct record the Minutes of the meeting of the Finance Committee held on 23 November 2010 including such parts as were taken with the Public Excluded.

MATTERS UNDER ACTION

IV REPORTS

1. Mackenzie Tourism and Development Trust Quarterly Report
2. Finance Report
3. Bancorp Quarterly Report
4. Audit Committee – Establishment and Good Practice Guide
5. Audit Management Letter
6. Funding of Additional Audit Costs (to be circulated)

V PUBLIC EXCLUDED

That the public, be excluded from the following part of the proceedings of this meeting namely:

1. Public Excluded Minutes of the Finance Committee meeting held on 23 November 2010
2. Policy for Rental of Medical Centres

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
Public Excluded Minutes of Finance Committee Meeting of 23 November 2010		48(1)(a)(i)
Policy for Rental of Medical Centres	To enable the Council to carry out negotiations	48(1)(a)(i)

This resolution is made in reliance on Section 48(1)(a)(i) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows: *Policy for Rental of Medical Centres* section 7(2)(i)

VI VISITOR

9.30 am Mackenzie Tourism and Development Trust - Philip Brownie, General Manager, DMCM

MACKENZIE DISTRICT COUNCIL

MINUTES OF A MEETING OF THE FINANCE COMMITTEE HELD IN THE COUNCIL CHAMBERS, FAIRLIE, ON TUESDAY 23 NOVEMBER 2010 AT 9.40 AM

PRESENT:

Graham Smith (Chairman)
Claire Barlow (Mayor)
John Bishop
Peter Maxwell
Annette Money
Graeme Page

IN ATTENDANCE:

Glen Innes (Chief Executive Officer)
Paul Morris (Manager – Finance and Administration)
Garth Nixon (Community Facilities Manager) for parts of the meeting
Bernie Haar (Asset Manager) for parts of the meeting
Rosemary Moran (Committee Clerk)

I APOLOGY:

Resolved that an apology be received from Evan Williams.

Graeme Page/John Bishop

PIKE RIVER MINE DISASTER:

Resolved that a letter be sent to the Grey District Council expressing hope and support for the community as it deals with the disaster at the Pike River Mine.

Graeme Page/Annette Money

II MINUTES

The Minutes of the previous meeting of the Finance Committee held on 10 September 2010 were confirmed as the correct record on the recommendation of the former Mayor and the Chief Executive Officer.

MATTERS UNDER ACTION:

Alps to Ocean Cycleway

The Chief Executive Officer advised that a verbal agreement had been reached with the Chief Executive Officer of the Waitaki District Council regarding the proportion of individual financial liability for each of the Mackenzie and Waitaki District Councils with regard to the \$2.75m construction funding. He said that agreement was to be formalised in writing.

III REPORTS:

3. MACKENZIE TOURISM AND DEVELOPMENT TRUST – QUARTERLY REPORT:

The Chairman welcomed Philip Brownie, General Manager – Destination Mount Cook Mackenzie, who attended to present the quarterly report of the Mackenzie Tourism and Development Trust.

Mr Brownie spoke to the report and answered questions. He referred in particular to the Winter Marketing Campaign, the targeted rating regime as it applied to ski fields, the intention to review the targeted rating system and the Twizel Information Centre.

In response to a question regarding the deficit from the previous year and strategies the Trust had developed to deal with it given that the anticipated surplus had been reduced, Mr Brownie said it was important to note that the Trustees were not looking to Council to fund the deficit; rather the Trust wanted to trade its way out of it. He advised that he was currently developing documentation to support changes to address anomalies in the targeted rating structure. He said he was confident both the Tekapo and Pukaki information centres would return a surplus, the marketing budget was manageable and he was comfortable that the Twizel Information Centre would break even.

He noted that the surplus had been revised a figure of \$20,000 and he would be reluctant to forecast a higher level given the costs involved in the operation of the Lake Tekapo i-SITE such as rent and power – costs which were not incurred in the operation of the Pukaki Visitor Information Centre.

The Chairman expressed his appreciation of the update from Mr Brownie and his hope that the Council would be made aware of any issues earlier rather than later.

Cr Page attempted to distribute to Councillors copies of an email and ask Mr Brownie for his comments.

The Chairman ruled that the matter was out of order.

He thanked Mr Brownie for his report and Mr Brownie left the meeting at 10.30 am

The meeting was adjourned at 10.30 am for morning tea and reconvened at 10.50 am.

1. FINANCIAL REPORT – JULY 2010:

This report from the Manager – Finance and Administration was accompanied by the financial reports for the period to July 2010.

The Manager – Finance and Administration provided an overview of the Council's financial structure and accounts and then spoke to his report.

Resolved that the reports be received.

Graeme Page/Peter Maxwell

2. BANCORP QUARTERLY REPORT:

This report was the Quarterly Portfolio Report for the three months ending 30 September 2010 for the Mackenzie District Council prepared by Bancorp Treasury Services Limited.

Resolved that the report be received.

Graeme Page/Annette Money

4 FOX PEAK ROAD

This report from the Asset Manager presented a request from the Fox Peak Ski Club for a review of the Council's decision to only pay part of the invoice for the work carried out on Fox Peak Road in May 2010.

The Chairman asked why the Council had been asked to reconsider the issue.

The Chief Executive Officer advised that the Fox Peak Ski Club had appealed the Council's previous decision and asked for it to be reviewed.

Resolved that the report be received.

Peter Maxwell/Claire Barlow

Resolved that Council does not pay the extra \$2,605 as claimed.

Graeme Page/John Bishop

The meeting was adjourned at 12.30 pm for lunch and reconvened at 1.00 pm.

5. MACKENZIE RETIREMENT VILLAS CARPORTS – UNBUDGETED EXPENDITURE:

This report from the Community Facilities Manager referred to an increase in the cost of constructing carports at the Mackenzie Retirement Villas because the total engineering fees and the cost of guttering had not been included in the original estimate. The report proposed a new funding regime which included the contribution of \$11,270 from the Mackenzie Aged Persons Welfare Association, a grant from the Council to cover the cost of GST and consent fees and a contribution from the Fairlie Lions Club of \$2,480.00.

Resolved that the report be received.

Graeme Page/Annette Money

Resolved:

1. That Council approves unbudgeted expenditure of approximately \$3,442.00 being the cost of GST and resource consent fees for the carports at the Mackenzie Retirement Villas.
2. That the Fairlie Lions be requested to fund the balance of the unbudgeted expenditure, viz \$2,480.00.

Peter Maxwell/Annette Money

IV **PUBLIC EXCLUDED:**

Resolved that the public be excluded from the following part of the proceedings of this meeting namely:

<u>General subject of each matter to be considered</u>	<u>Reason for passing this resolution in relation to each matter</u>	<u>Ground(s) under Section 48(1) for the passing of this resolution</u>
1 Property Matters	Commercial Sensitivity	48(1)(a)(i)
2. Mackenzie Medical Trust	To protect the privacy of persons	48(1)(a)(i)

This resolution is made in reliance on Section 48(1)(a)(i) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows: *Property Matters* section 7(2)(b)(ii) and *Mackenzie Medical Trust* section 7(2)(a).

Annette Money/Peter Maxwell

The Committee continued in Open Meeting

**THERE BEING NO FURTHER BUSINESS THE
CHAIRMAN DECLARED THE MEETING CLOSED AT 2.10 PM**

CHAIRMAN: _____

DATE: _____

MATTERS UNDER ACTION – FINANCE COMMITTEE

MANAGER – FINANCE AND ADMINISTRATION

7 May 2010

Reserve 3587

That Council approves entering into a lease for **Reserve 3587** to its being on a ‘no cost to Council’ basis and final Council approval *Underway*

6 August 2010

Medical Facilities – Sale of Doctors’ Residences

Prepare a report with options for funding to support medical facilities in the District

Tekapo Property Matters

Investigate opportunities to market VC1 and VC2 sites and investigate potential corridor for access to lake frontage land.

Twizel Land Sale

Withdraw from the sale of that piece of land forming part of the property at on Mackenzie Drive, Twizel on the grounds that costs of complying with the subdivisional consent are not acceptable.

Completed.

COMMUNITY FACILITIES MANAGER

Mackenzie Retirement Villas Carports – Unbudgeted Expenditure:

- That Council approves unbudgeted expenditure of approximately \$3,442.00 being the cost of GST and resource consent fees for the carports at the Mackenzie Retirement Villas.
- That the Fairlie Lions be requested to fund the balance of the unbudgeted expenditure, viz \$2,480.00 *The request has been submitted to the Fairlie Lions Club.*

CHIEF EXECUTIVE OFFICER

13 September 2010

Negotiate with counterpart at the Waitaki District Council to clarify the proportion of individual financial liability for the Waitaki District Council and the Mackenzie District Council with regard to the \$2.75m construction funding for the *Alps to Ocean Cycleway* for which both Councils were invited to be joint signatories of the funding agreement with the Crown. *A draft agreement has been prepared for discussion with Waitaki Chief Executive Officer.*

23 November 2010

Pike River Mine Disaster:

Write to the Grey District Council expressing hope and support for the community as it deals with the disaster at the Pike River Mine. *The Mayor emailed the Mayor of the Grey District.*

Mackenzie Tourism and Development Trust

Half-Yearly Finance Report - Mackenzie District Council

Tuesday February 1st 2011

The first Six months of the 2011/12 year have produced mixed results for the 3 visitor centres but which over all gives rise to a strong second half year projected trading pattern. Other divisions have traded well.

The first half of the year is the most difficult for trading as the region is strongly affected by seasonal tourism variation between summer and winter visitor numbers. Visitor numbers for the region year to date are strong, continue to grow and are well above the national and Canterbury averages. It is part of the cyclic nature of tourism in the Mackenzie that for over half the year businesses makes a loss and then in the second half makes profit.

Lake Tekapo

The Tekapo i-SITE has now been trading for one full year now and has not yet reached its potential. It isn't meeting budget but it must be noted that it is now trading approx 100 % up on its first year results. There are still revenue streams that need to be developed and with tight expense control will break even. It is a very busy centre with 9, 159 visitors in December.

Lake Pukaki

Following a review in the last quarter the centre is now trading strongly and is ahead of expectations for the first half of the financial year. I believe that this will continue and the centre will trade above budget for the remainder of the year. Pukaki visitor numbers were 11,542,

Twizel

Twizel continues to grow and develop and with the added financial support from the Twizel Community board the centre is ahead of budget. It is expected that it will continue to trade well and will make budget for the year. Twizel had 3466 visitors but this figure does include users to the event centres who visit the info centre also.

There have been no major changes in staff at the centres and over 60% of staff now have national recognised Visitor Centre qualifications. Total visitor number for the 3 centres in December was 24,167.

Marketing

We have kept expenses very tight as we are still expecting some increased costs for audit, legal and accounting work.. Support from operators for brochure display and sign boards has increased revenue.

The Cycleway project will provide some income streams as we recover costs incurred and this will add to the bottom line.

Winter marketing, Cycleways and Starlight reserve have had no significant trading to date and are not included in the half yearly reports. Winter marketing and Starlight Reserve projects are funded from external sources and the Cycleway has only just got underway in January.

Summary

Two of the three visitor centres are trading ahead of budget and all three are on track to exceed end of year budget forecasts. Currently the 3 centres are \$12,540 ahead of budget, marketing is \$14,937 ahead of budget but will face a challenging second half year .Marketing will be have some new small revenue streams coming on which may reduce the end of year deficit. Depreciation is included in the results as it is now part of our monthly reports and annual budget. There are no significant items of concern at the end of the first six months of the year.

Phil Brownie, General Manager

Destination Mt Cook Mackenzie

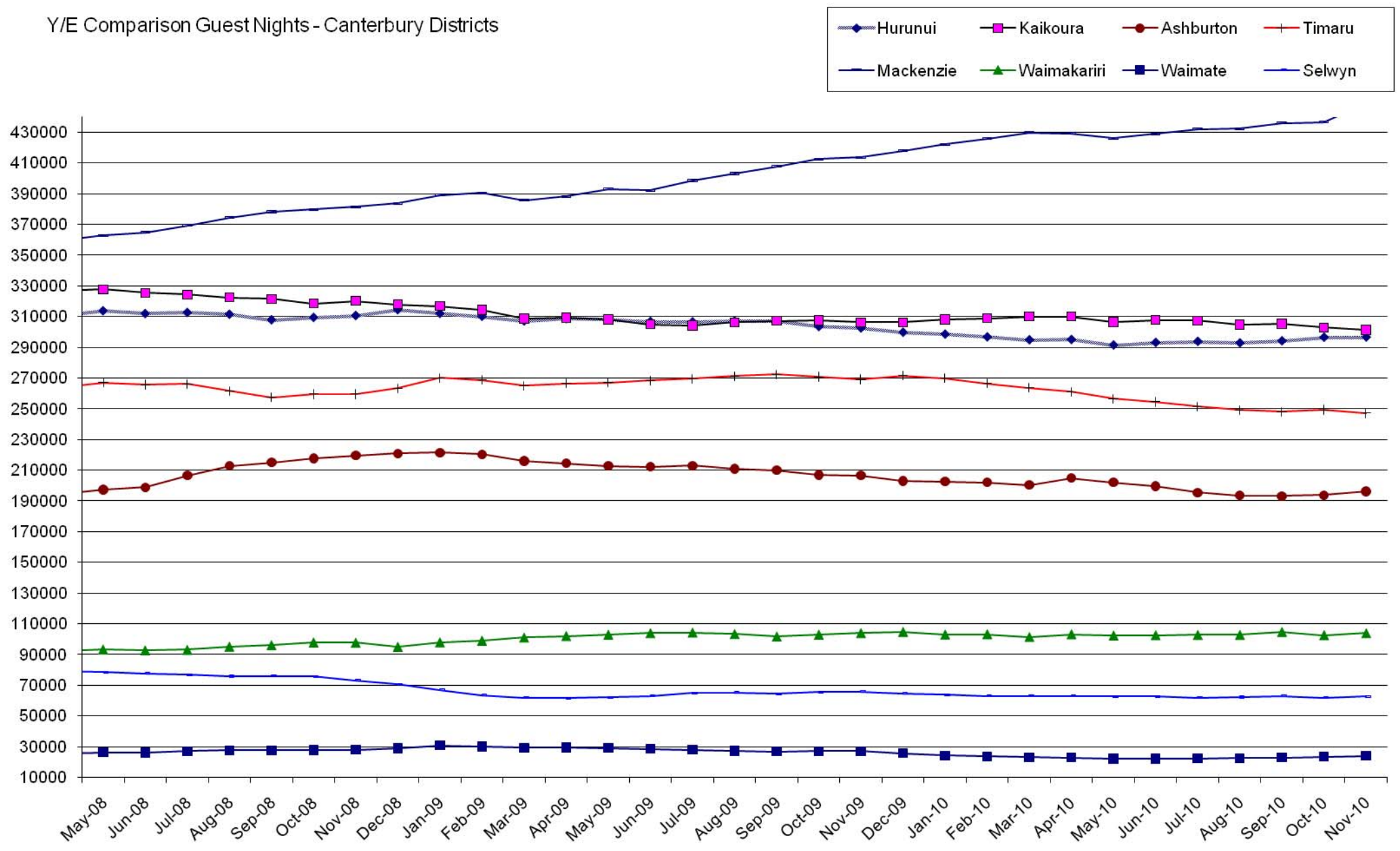
Mackenzie Tourism and Development Trust

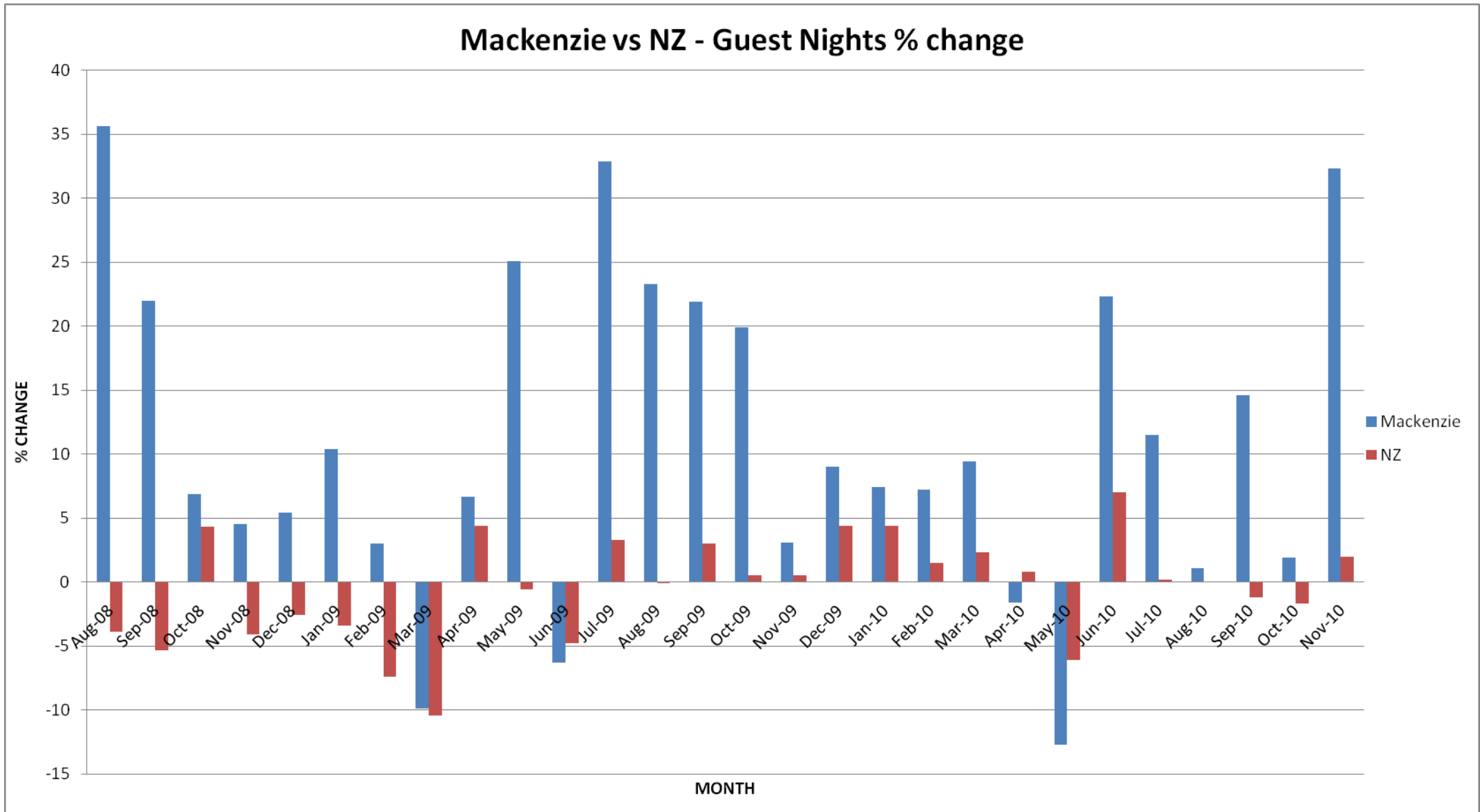
Half Yearly Report

Centre	6 months Trading	6 months Budget	Variance to Budget	Year End Forecast	12 months Budget	Variance to Budget
Tekapo	-33,815	-25,316	-8,499	-6,430	4,169	-10,599
Pukaki	4,826	-12,474	17,300	27,057	14,941	12,116
Twizel	-1,761	-5,500	3,739	7,925	596	7,329
Subtotal	-30,750	-43,290	12,540	28,552	19,706	8,846
Marketing	-7,167	-22,104	14,937	-12,101	4,284	-16,385
Subtotal	-7,167	-22,104	14,937	-12,101	4,284	-16,385
TOTAL	-37,917	-65,394	27,477	16,451	23,990	-7,539

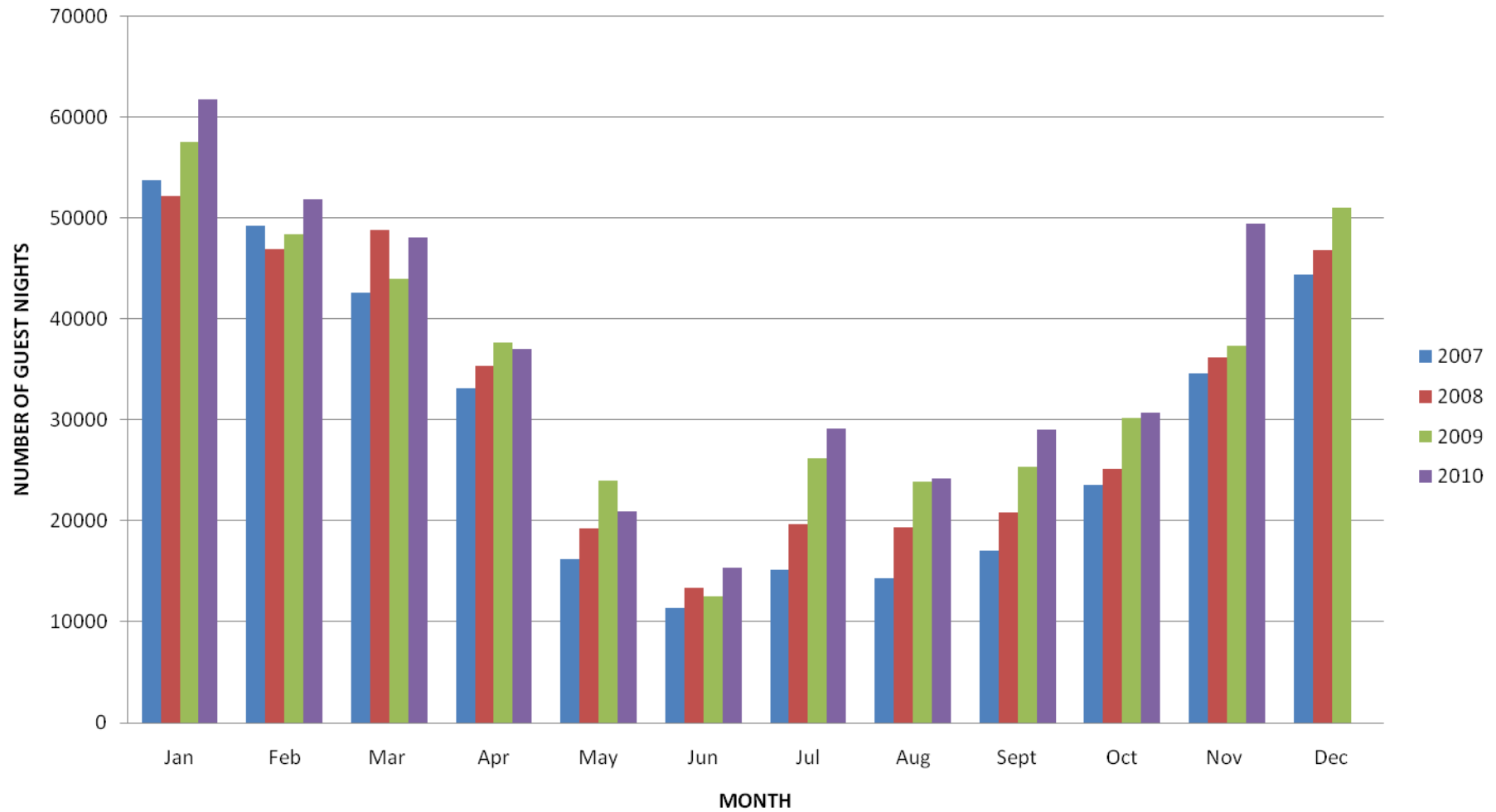
Figures include Depreciation and Capex/Capital Expenditure

Y/E Comparison Guest Nights - Canterbury Districts





MONTHLY GUEST NIGHT COMPARISON JAN 07 - present



MACKENZIE DISTRICT COUNCIL

REPORT TO: FINANCE COMMITTEE

SUBJECT: FINANCIAL REPORT – DECEMBER 2010

MEETING DATE: 1 FEBRUARY 2011

REF: FIN 1/2/1

FROM: MANAGER – FINANCE AND ADMINISTRATION

ENDORSED: CHIEF EXECUTIVE OFFICER

PURPOSE OF REPORT:

Attached is the financial report for Council for the period to December 2010.

Commentary has been provided for any significant variances.

STAFF RECOMMENDATIONS:

1. That the report be received.

PAUL MORRIS	GLEN INNES
<u>MANAGER – FINANCE & ADMINISTRATION</u>	<u>CHIEF EXECUTIVE OFFICER</u>

GOVERNANCE ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

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OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Labour	26,192	35,307	27,174	8,133	X 1	54,352	54,352	0	
Members Costs	93,324	125,729	104,300	21,429	X 2	206,599	206,599	0	
Administration	26,025	19,014	20,682	1,668	√	38,360	38,360	0	
Capital Reserve Interest Paid	140	113	168	55	√	333	333	0	
Council Staff Support Costs	211,446	211,566	211,566	0		423,111	423,111	0	
Total Operating Expenditure	357,127	391,729	363,890	27,839		722,755	722,755	0	
Operating Revenue									
Total Rates	357,127	391,729	363,890	27,839	X	722,755	722,755	0	
Total Operating Revenue	357,127	391,729	363,890	27,839		722,755	722,755	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(7,244)	(5,617)	(5,617)			(5,617)	(5,617)		
Capital Expenditure									
Total Capital Expenditure	0	0	0	0		0	0	0	
Capital Revenue									
Total Rates	0	0	0	0		0	0	0	
Total Capital Revenue	0	0	0	0		0	0	0	
CLOSING BALANCE	(7,244)	(5,617)	(5,617)			(5,617)	(5,617)		

Variance Analysis

1. Includes costs of \$7,090 wages and Salaries relating to Local Body elections
2. Includes \$18,278 costs for the Local body elections. These costs are funded by \$5,000 in this years budget and \$28,000 from Reserves set aside for this purpose in prior years.

WATER ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(36,182)	(34,119)	(34,119)			(34,119)	(34,119)		
Operating Expenditure									
Consultancy	2,515	7,060	12,200	5,140	✓	39,606	39,606	0	
Administration	4,125	3,753	3,381	372	X	7,435	7,435	0	
Capital Reserve Interest Paid	29,178	19,008	31,962	12,954	✓ 1	63,915	63,915	0	
General Maintenance	142,151	135,017	154,716	19,699	✓ 2	314,001	314,001	0	
Council Staff Support Costs	58,362	57,468	57,468	0		114,942	114,942	0	
Total Operating Expenditure	236,332	222,306	259,727	37,421		539,899	539,899	0	
Operating Revenue									
Total Rates	214,337	201,996	249,335	47,339	✓	441,865	441,865	0	
Other Income	14,995	15,781	10,350	5,431	✓	97,785	97,785	0	
Total Operating Revenue	229,332	217,777	259,685	41,908		539,650	539,650	0	
CLOSING BALANCE	(43,182)	(38,648)	(34,161)			(34,368)	(34,368)		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(420,833)	113,533	113,533			113,533	113,533		
Capital Expenditure									
Fairlie	3,695	37,446	42,000	4,554	✓	605,768	605,768	0	
Tekapo	0	0	0	0		3,102	3,102	0	
Twizel	18,187	5,666	11,084	5,418	✓	161,244	161,244	0	
Rural	19,962	8,192	14,500	6,308	✓	15,000	15,000	0	
Vested Assets from Developers	0	0	0	0		48,098	48,098	0	
Total Capital Expenditure	41,844	51,304	67,584	16,280		833,212	833,212	0	
Capital Revenue									
Total Rates	146,271	153,649	135,788	17,861	X 3	281,119	281,119	0	
Capital Reserve Interest Received	16,610	14,802	10,200	4,602	✓	(29,596)	(29,596)	0	
Financial Contributions	18,141	5,902	12,588	6,686	X	5,034	5,034	0	
Upgrade Contributions	0	0	0	0		42,344	42,344	0	
Vested Assets from Developers	0	0	0	0		48,098	48,098	0	
Rural	6,773	0	0	0	✓	15,000	15,000	0	
Total Capital Revenue	187,794	174,354	158,576	15,778		361,999	361,999	0	
CLOSING BALANCE	(274,882)	236,583	204,525			(357,680)	(357,680)		

Variance Analysis

- Capital Reserve Interest down on budget for Fairlie (\$9,278) and Allandale (\$2,722) due to budgeted interest being calculated on the average estimated balance of the Capital Reserve (\$654,280) compared to actual of \$391,726
- General Maintenance shows a favourable variance of \$19,699 made up of lower Contractor costs for Fairlie \$4,403 due to lower than anticipated breakages along with \$57,507 favourable variance for Twizel power costs as well as lower than anticipated Maintenance costs Allandale and Ashwick schemes (\$2,722 and \$4,771 respectively)
- Fairlie Water scheme transfers its profits to its Capital reserve. YTD operating profit was ahead of budget by \$17,861 which has created this positive variance
The level of surplus will ultimately depend on the level of maintenance required to be undertaken for the year.

SEWERAGE ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

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OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Administration	3,271	2,514	2,712	198	√	5,408	5,408	0	
Capital Reserve Interest Paid	19,746	14,252	15,806	1,554	√	31,613	31,613	0	
General Maintenance	70,928	56,398	55,360	1,038	X	112,062	112,062	0	
Council Staff Support Costs	44,928	44,160	44,166	6	√	88,329	88,329	0	
Total Operating Expenditure	138,872	122,349	131,098	8,749		250,466	250,466	0	
Operating Revenue									
Total Rates	138,872	122,349	131,098	8,749	√	250,466	250,466	0	
Other Income	0	0	0	0		0	0	0	
Total Operating Revenue	138,872	122,349	131,098	8,749		250,466	250,466	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(963,465)	(82,805)	(82,805)			(82,805)	(82,805)		
Capital Expenditure									
Fairlie	0	162,340	165,000	2,660	√	165,000	165,000	0	
Tekapo	0	0	0	0		0	0	0	
Twizel	49,213	27,230	35,000	7,770	√	162,000	162,000	0	
Vested Assets from Developers	0	0	0	0		64,140	64,140	0	
Total Capital Expenditure	49,213	189,571	200,000	10,429		391,140	391,140	0	
Capital Revenue									
Total Rates	105,610	111,690	112,546	856	√	228,128	228,128	0	
Capital Reserve Interest Received	10,999	10,186	7,710	2,476	√	15,424	15,424	0	
Financial Contributions	48,125	6,212	33,486	27,274	X	83,925	83,925	0	
Upgrade Contributions	0	0	0	0		24,082	24,082	0	
Vested Assets from Developers	0	0	0	0		64,140	64,140	0	
Total Capital Revenue	164,733	128,087	153,742	25,655		415,699	415,699	0	
CLOSING BALANCE	(847,945)	(144,289)	(129,063)			(58,246)	(58,246)		

Variance Analysis

No significant variances from budget

STORMWATER ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

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OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance Note	Forecast	Full Year to 30 June 2011 Budget	Variance Note
OPENING BALANCE	0	0	0		0	0	
Operating Expenditure							
Consultancy	0	1,915	2,000	85 √	12,434	12,434	0 √
Administration	838	618	486	132 X	976	976	0
General Maintenance	4,942	4,725	6,498	1,774 √	12,995	12,995	0
Council Staff Support Costs	11,754	11,574	11,574	0	23,137	23,137	0
Total Operating Expenditure	17,534	18,831	20,558	1,727	49,542	49,542	0
Operating Revenue							
Total Rates	12,759	14,574	16,874	2,300 √	42,188	42,188	0
Capital Reserve Interest Received	4,775	4,256	3,684	572 √	7,354	7,354	0
Total Operating Revenue	17,534	18,831	20,558	1,727	49,542	49,542	0
CLOSING BALANCE	0	0	0		0	0	

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance Note	Forecast	Full Year to 30 June 2011 Budget	Variance Note
OPENING BALANCE	235,053	308,184	308,183		308,183	308,183	
Capital Expenditure							
Fairlie	0	0	6,000	6,000 √	10,000	10,000	0
Tekapo	0	0	6,000	6,000 √	10,000	10,000	0
Twizel	0	0	0	0	0	0	0
Vested Assets from Developers	0	0	0	0	38,514	38,514	0
Total Capital Expenditure	0	0	12,000	12,000	58,514	58,514	0
Capital Revenue							
Total Rates	28,464	29,628	29,628	0	59,257	59,257	0
Financial Contributions	1,196	1,445	0	1,445 √	0	0	0
Upgrade Contributions	0	0	0	0	0	0	0
Vested Assets from Developers	0	0	0	0	38,514	38,514	0
Total Capital Revenue	29,660	31,073	29,628	1,445	97,771	97,771	0
CLOSING BALANCE	264,713	339,257	325,811		347,440	347,440	

Variance Analysis

No significant variances from budget

ROADING ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(108,688)	(48,834)	(48,834)			(48,834)	(48,834)		
Operating Expenditure									
Labour	52,069	44,525	53,844	9,319	✓	107,693	107,693	0	
Consultancy	14,788	22,872	24,000	1,128	✓	48,000	48,000	0	
Administration	2,171	2,526	2,142	384	X	4,273	4,273	0	
Capital Reserve Interest Paid	29	(6)	618	624	✓	1,235	1,235	0	
General Maintenance	6,730	14,291	5,778	8,513	X	11,553	11,553	0	
Roading	565,890	569,337	622,620	53,283	✓	1,264,784	1,264,784	0	
Council Staff Support Costs	139,260	149,496	149,496	0		298,987	298,987	0	
Total Operating Expenditure	780,937	803,042	858,498	55,456		1,736,525	1,736,525	0	
Operating Revenue									
Fairlie Works & Services Rates	29,137	29,811	26,346	3,465	X	61,535	61,535	0	
Tekapo Works & Services Rates	42,179	27,544	22,250	5,294	X	65,874	65,874	0	
Twizel Works & Services Rates	45,327	36,386	14,003	22,383	X	91,252	91,252	0	
Rural Works & Services Rates	289,953	312,495	145,720	166,775	X	473,802	473,802	0	
Total Rates	406,596	406,237	208,320	197,917	X	692,463	692,463	0	
Other Income	318,824	341,091	591,678	250,587	X	927,073	927,073	0	
Council Staff Support Income	54,208	64,500	64,500	0		128,992	128,992	0	
Total Operating Revenue	779,628	811,828	864,498	52,670		1,748,528	1,748,528	0	
CLOSING BALANCE	(109,996)	(40,048)	(42,834)			(36,831)	(36,831)		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	897,019	760,195	760,195			760,195	760,195		
Capital Expenditure									
Fairlie	250	3,338	7,212	3,874	✓	56,549	56,549	0	
Tekapo	0	3,730	1,548	2,182	X	126,286	126,286	0	
Twizel	0	11,476	1,032	10,444	X	236,995	236,995	0	
Rural	220,791	144,598	300,852	156,254	✓	954,924	954,924	0	
Professional Services Business Unit	0	0	0	0		0	0	0	
Total Capital Expenditure	221,041	163,142	310,644	147,502		1,374,754	1,374,754	0	
Capital Revenue									
Fairlie Works & Services Rates	108	1,536	3,318	1,782	✓	34,372	34,372	0	
Tekapo Works & Services Rates	0	1,716	712	1,004	X	40,330	40,330	0	
Twizel Works & Services Rates	0	5,279	475	4,804	X	96,165	96,165	0	
Rural Works & Services Rates	94,940	66,515	138,392	71,877	✓	439,265	439,265	0	
Total Rates	95,048	75,045	142,896	67,851	✓	610,132	610,132	0	
Council Staff Support Income	644	606	606	0		1,215	1,215	0	
Fairlie	143	1,803	3,894	2,092	✓	22,177	22,177	0	
Tekapo	0	2,014	836	1,178	X	85,956	85,956	0	
Twizel	1,845	6,836	1,307	5,529	X	142,336	142,336	0	
Rural	154,159	91,559	170,992	79,433	✓	532,727	532,727	0	
Professional Services Business Unit	0	0	0	0		0	0	0	
Total Capital Revenue	251,837	177,863	320,532	142,669		1,394,543	1,394,543	0	
CLOSING BALANCE	927,816	774,916	770,083			779,984	779,984		

Variances

Variances will be discussed at the meeting

ROADING ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(108,688)	(48,834)	(48,834)			(48,834)	(48,834)		
Operating Expenditure									
<i>Fairlie Roding</i>									
Subsidised	30,475	35,644	41,598	5,954	✓	86,792	86,792	0	
Unsubsidised	8,438	9,238	8,838	400	X	17,676	17,676	0	
<i>Tekapo Roding</i>									
Subsidised	39,751	31,834	46,230	14,396	✓	97,085	97,085	0	
Unsubsidised	8,544	10,297	9,468	829	X	18,935	18,935	0	
<i>Twizel Roding</i>									
Subsidised	49,509	42,667	54,138	11,471	✓	119,610	119,610	0	
Unsubsidised	15,769	15,400	17,916	2,516	✓	35,824	35,824	0	
<i>Rural Roding</i>									
Subsidised	475,869	494,931	515,202	20,271	✓	1,030,397	1,030,397	0	
Unsubsidised	52,356	53,712	53,712	0		107,433	107,433	0	
Professional Roding Business Unit	100,226	109,319	111,396	2,077	✓	222,773	222,773	0	
Total Operating Expenditure	780,937	803,042	858,498	55,456		1,736,525	1,736,525	0	
Operating Revenue									
Fairlie Works & Services Rates	29,137	29,811	26,346	3,465	X	61,535	61,535	0	
Tekapo Works & Services Rates	42,179	27,544	22,250	5,294	X	65,874	65,874	0	
Twizel Works & Services Rates	45,327	36,386	14,003	22,383	X	91,252	91,252	0	
Rural Works and Services Rates	289,953	312,495	145,720	166,775	X	473,802	473,802	0	
Other Income	318,824	341,091	591,678	250,587	X	927,073	927,073	0	
Professional Roding Business Unit	54,208	64,500	64,500	0		128,992	128,992	0	
Total Operating Revenue	779,628	811,828	864,498	52,670		1,748,528	1,748,528	0	
CLOSING BALANCE	(109,996)	(40,048)	(42,834)			(36,831)	(36,831)		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	897,019	761,857	761,857			761,857	761,857		
Capital Expenditure									
<i>Fairlie</i>									
Subsidised	250	3,338	7,212	3,874	✓	41,069	41,069	0	
Unsubsidised	0	0	0	0		15,480	15,480	0	
<i>Tekapo</i>									
Subsidised	0	3,730	1,548	2,182	X	44,195	44,195	0	
Unsubsidised	0	0	0	0		20,000	20,000	0	
<i>Twizel</i>									
Subsidised	0	11,476	1,032	10,444	X	99,820	99,820	0	
Unsubsidised	0	0	0	0		50,248	50,248	0	
<i>Rural</i>									
Subsidised	220,791	144,598	300,852	156,254	✓	954,924	954,924	0	
Unsubsidised	0	0	0	0		0	0	0	
Assets Vested from Developers	0	0	0	0		149,018	149,018	0	
Professional Services Business Unit	0	0	0	0		0	0	0	
Total Capital Expenditure	221,041	163,142	310,644	147,502		1,374,754	1,374,754	0	
Capital Revenue									
Fairlie Works & Services Rates	108	1,536	3,318	1,782	✓	34,372	34,372	0	
Tekapo Works & Services Rates	0	1,716	712	1,004	X	40,330	40,330	0	
Twizel Works & Services Rates	0	5,279	475	4,804	X	96,165	96,165	0	
Rural Works and Services Rates	94,940	66,515	138,392	71,877	✓	439,265	439,265	0	
Capital Reserve Interest Received	20,153	14,115	9,282	4,833	✓	18,574	18,574	0	
Financial Contributions	0	0	0	0		0	0	0	
Upgrade Contributions	10,000	0	0	0		0	0	0	
Assets Vested from Developers	0	0	0	0		149,018	149,018	0	
Other Income	0	0	0	0		0	0	0	
LTNZ Subsidies	125,993	88,097	167,748	79,651	X	615,604	615,604	0	
Council Staff Support Income	644	606	606	0		1,215	1,215	0	
Total Capital Revenue	251,837	177,863	320,532	142,669		1,394,543	1,394,543	0	
	927,816	776,578	771,745			781,646	781,646		

FAIRLIE ROADING
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Interest on Capital Reserves	29	(6)	90	96	✓	178	178	0	
Roading <i>Subsidised</i>									
Drainage Mtce - St Cleaning	185	4,355	12,750	8,395	✓	25,500	25,500	0	
Drain Mtce - St Clean - Transi	6,237	6,331	6,036	295	X	12,076	12,076	0	
Traffic Svcs Mtce - Pav Mkings	0	0	0	0		3,600	3,600	0	
St Lighting - Elec	2,476	2,383	3,336	953	✓	6,670	6,670	0	
St Lighting - Elec - Transit	2,614	2,497	2,568	71	✓	5,130	5,130	0	
St Lighting - Mtce	2,293	1,456	3,300	1,844	✓	6,600	6,600	0	
St Lighting - Mtce - Transit	2,387	9,047	2,010	7,037	X	4,017	4,017	0	
Sealed Pavement Mtce	2,612	1,507	2,928	1,421	✓	5,850	5,850	0	
Unsealed Pavement Mtce	1,440	1,103	516	587	X	1,032	1,032	0	
Routine Drainage Mtce	8,391	825	648	177	X	1,300	1,300	0	
Environ Mtce - Snow & Ice Cont	0	4,530	1,566	2,964	X	3,127	3,127	0	
Enviro Mtce - Vegetation Contr	651	0	666	666	✓	1,333	1,333	0	
Enviro Mtce - Other	0	72	666	594	✓	1,334	1,334	0	
Traffic Svcs Mtce - Signs EMPs	0	68	198	130	✓	400	400	0	
Network & Asset Management	0	0	3,000	3,000	✓	6,001	6,001	0	
<i>Total Subsidised</i>	<i>29,287</i>	<i>34,234</i>	<i>40,188</i>	<i>5,954</i>	<i>✓</i>	<i>83,970</i>	<i>83,970</i>	<i>0</i>	
<i>Unsubsidised</i>									
Fairlie Footpaths	3,603	4,288	3,792	496	X	7,585	7,585	0	
<i>Total Unsubsidised</i>	<i>3,603</i>	<i>4,288</i>	<i>3,792</i>	<i>496</i>	<i>X</i>	<i>7,585</i>	<i>7,585</i>	<i>0</i>	
Total Direct Roothing Costs	32,890	38,522	43,980	5,458	✓	91,555	91,555	0	
Council Staff Support Costs									
Charges - Roothing Prof Svcs	1,188	1,410	1,410	0		2,822	2,822	0	
Charges - Roothing Prof Svcs	852	1,014	1,014	0		2,027	2,027	0	
Professional Roothing Services	2,040	2,424	2,424	0		4,849	4,849	0	
Charges - Admin District	2,064	2,088	2,088	0		4,181	4,181	0	
Charges - Asset Management	1,890	1,854	1,854	0		3,705	3,705	0	
Total Council Staff Support Costs	5,994	6,366	6,366	0		12,735	12,735	0	
Total Operating Expenditure	38,913	44,882	50,436	5,554		104,468	104,468	0	
Operating Revenue									
Fairlie Works & Services Rates	29,137	29,811	26,346	3,465	X	61,535	61,535	0	
Other Income									
Transit-Street Lights & Clean	0	0	0	0		9,147	9,147	0	
Transfund New Zealand	6,781	12,884	24,192	11,308	X	48,378	48,378	0	
NZTA Operational Subsidy	6,638	11,081	20,298	9,216	X	26,201	26,201	0	
Petroleum Tax	3,138	3,989	3,792	197	✓	7,585	7,585	0	
<i>Total Other Income</i>	<i>9,776</i>	<i>15,071</i>	<i>24,090</i>	<i>9,019</i>	<i>X</i>	<i>42,933</i>	<i>42,933</i>	<i>0</i>	
Council Staff Support Income				0				0	
Total Operating Revenue	38,913	44,882	50,436	5,554		104,468	104,468	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(41,745)	6,011	6,011			6,011	6,011		
Capital Expenditure									
<i>Subsidised Capital</i>									
Traffic Svcs Renewal - Signs EMP	250	3,338	7,212	3,874	✓	14,429	14,429	0	
Sealed Road Resurfacing	0	0	0	0		26,640	26,640	0	
<i>Total Subsidised Capital</i>	<i>250</i>	<i>3,338</i>	<i>7,212</i>	<i>3,874</i>	<i>✓</i>	<i>41,069</i>	<i>41,069</i>	<i>0</i>	
<i>Unsubsidised Capital</i>									
Vested Assets	0	0	0	0		0	0	0	
Footpaths - Surfacing	0	0	0	0		15,480	15,480	0	
<i>Total Unsubsidised</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>		<i>15,480</i>	<i>15,480</i>	<i>0</i>	
Total Capital Expenditure	250	3,338	7,212	3,874		56,549	56,549	0	
Capital Revenue									
Fairlie Works & Services Rates	108	1,536	3,318	1,782	✓	34,372	34,372	0	
Vested Assets	0	0	0	0		0	0	0	
NZTA Subsidies	143	1,803	3,894	2,092	X	22,177	22,177	0	
Total Capital Revenue	250	3,338	7,212	3,874		56,549	56,549	0	
CLOSING BALANCE	(41,745)	6,011	6,011			6,011	6,011		

Variance Analysis

TEKAPO ROADING
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Interest on Capital Reserve	0	0	0	0		0	0	0	
Roading <i>Subsidised</i>									
Drain Mtce - St Clean	7,535	4,417	7,854	3,437	✓	15,705	15,705	0	
Drain Mtce - St Clean - Transi	4,069	3,698	4,914	1,216	✓	9,825	9,825	0	
Traffic Svcs Mtce - Pav Mkings	0	0	0	0		4,644	4,644	0	
Street Lighting - Electricity	4,912	3,722	4,002	280	✓	8,000	8,000	0	
St Lighting - Elec - Transit	607	460	684	224	✓	1,372	1,372	0	
Street Lighting - Maintenance	13,535	5,084	12,000	6,916	✓	24,000	24,000	0	
St Lighting - Mtce - Transit	1,673	625	2,040	1,415	✓	4,079	4,079	0	
Sealed Pavement Mtce	3,078	2,236	2,388	152	✓	4,771	4,771	0	
Unsealed Pavement Maintenance	1,085	847	0	847	X	0	0	0	
Drainage Mtce - Other	1,254	642	792	150	✓	1,590	1,590	0	
Environmental Maintenance	0	0	0	0		0	0	0	
Enviro Mtce - Snow & Ice Contr	495	7,837	1,830	6,007	X	3,657	3,657	0	
Enviro Mtce - Vegetation Contr	502	618	3,252	2,634	✓	6,500	6,500	0	
Enviro Mtce - Other	0	319	3,210	2,891	✓	6,416	6,416	0	
Traffic Svcs Mtce - Signs EMPs	0	129	258	129	✓	516	516	0	
Network & Asset Management	0	0	1,806	1,806	✓	3,612	3,612	0	
<i>Total Subsidised</i>	<i>38,743</i>	<i>30,634</i>	<i>45,030</i>	<i>14,396</i>	✓	<i>94,687</i>	<i>94,687</i>	<i>0</i>	
<i>Unsubsidised</i>									
Tekapo Footpaths	3,030	4,351	3,252	1,099	X	6,502	6,502	0	
New Year Road Sweep	0	0	270	270	✓	542	542	0	
<i>Total Unsubsidised</i>	<i>3,030</i>	<i>4,351</i>	<i>3,522</i>	<i>829</i>	X	<i>7,044</i>	<i>7,044</i>	<i>0</i>	
Total Direct Roothing Costs	41,773	34,985	48,552	13,567	✓	101,731	101,731	0	
Council Staff Support Costs									
Charges - Roothing Prof Svcs	1,008	1,200	1,200	0		2,398	2,398	0	
Charges - Roothing Prof Svcs	2,430	2,886	2,886	0		5,768	5,768	0	
Professional Roothing Services	3,438	4,086	4,086	0		8,166	8,166	0	
Charges - Asset Management	1,956	1,914	1,914	0		3,834	3,834	0	
Charges - Admin District	1,128	1,146	1,146	0		2,289	2,289	0	
Total Council Staff Support Costs	6,522	7,146	7,146	0		14,289	14,289	0	
Total Operating Expenditure	48,295	42,131	55,698	13,567		116,020	116,020	0	
Operating Revenue									
Tekapo Works & Services Rates	42,179	27,544	22,250	5,294	X	65,874	65,874	0	
Other Income	0	0	0	0		5,451	5,451	0	
Transit-Street Lights & Clean	0	0	0	0		5,451	5,451	0	
NZTA Operational Subsidy	3,209	11,422	30,364	18,942	X	38,537	38,537	0	
Petroleum Tax	2,297	2,920	2,322	598	✓	4,639	4,639	0	
Interest Earned on Capital Rsv	610	244	762	518	X	1,519	1,519	0	
Total Other Income	6,116	14,587	33,448	18,862	X	50,146	50,146	0	
Total Operating Revenue	48,295	42,131	55,698	13,567		116,020	116,020	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Variance Variance	Note	Forecast	Budget	Variance Variance	Note
OPENING BALANCE	6,876	18,815	18,815			18,815	18,815		
Capital Expenditure									
Subsidised Capital									
Traffic Svcs Renewal - St Light	0	3,730	1,032	2,698	X 1	2,064	2,064	0	
Signs	0	0	516	516	✓	1,032	1,032	0	
Reseals	0	0	0	0		41,099	41,099	0	
Total Subsidised Capital	0	3,730	1,548	2,182	X	44,195	44,195	0	
Unsubsidised Capital									
Vested Assets	0	0	0	0		62,091	62,091	0	
Footpaths - Surfacing	0	0	0	0		20,000	20,000	0	
Pioneer Drive Upgrade	0	0	0	0		0	0	0	
Total Unsubsidised	0	0	0	0		82,091	82,091	0	
Total Capital Expenditure	0	3,730	1,548	2,182		126,286	126,286	0	
Capital Revenue									
Tekapo Works & Services Rates	0	1,716	712	1,004	X	40,330	40,330	0	
Vested Assets	0	0	0	0		62,091	62,091	0	
NZTA Subsidy	0	2,014	836	1,178	✓	23,865	23,865	0	
	0	3,730	1,548	2,182		126,286	126,286	0	
	6,876	18,815	18,815			18,815	18,815		

Variance Analysis

1. Unbudgeted carry forward from 2009/2010 year

TWIZEL ROADING**FINANCIAL REPORT FOR DECEMBER 2010**

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Interest on Capital Reserve	0	0	0	0		0	0	0	
Roading									
Subsidised									
Drainage Mtce - St Cleaning	14,046	12,355	15,480	3,125	✓	30,960	30,960	0	
Traffic Svcs Mtce - Pav Mkings	0	0	0	0		11,352	11,352	0	
St Lighting - Electricity	12,067	10,204	11,142	938	✓	22,280	22,280	0	
St Lighting - Elec - Transit	77	59	72	13	✓	144	144	0	
Street Lighting - Maintenance	10,411	8,878	10,398	1,520	✓	20,800	20,800	0	
St Lighting - Mtce - Transit	105	90	360	270	✓	722	722	0	
Sealed Pavement Mtce	5,741	2,360	7,908	5,548	✓	15,813	15,813	0	
Insealed Pavement Maintenance	1,301	1,751	516	1,235	X	1,032	1,032	0	
Routine Drainage Mtce	1,404	719	1,002	283	✓	2,002	2,002	0	
Environmental Maintenance	0	0	0	0		0	0	0	
Enviro Mtce - Snow & Ice Contr	0	1,986	690	1,296	X	1,376	1,376	0	
Enviro Mtce - Vegetation Contr	1,166	333	690	358	✓	1,376	1,376	0	
Enviro Mtce - Other	343	397	690	293	✓	1,376	1,376	0	
Traffic Svcs Mtce - Signs EMPs	38	204	312	108	✓	619	619	0	
Network & Asset Management	0	0	1,548	1,548	✓	3,096	3,096	0	
Total Subsidised	46,701	39,337	50,808	11,471	✓	112,948	112,948	0	
Unsubsidised									
Twizel Footpaths	4,405	3,988	6,504	2,516	✓	13,003	13,003	0	
Total Unsubsidised	4,405	3,988	6,504	2,516	✓	13,003	13,003	0	
Total Direct Roading Costs	51,106	43,325	57,312	13,987	✓	125,951	125,951	0	
Council Staff Support Costs									
Charges - Roading Prof Svcs	2,808	3,330	3,330	0		6,662	6,662	0	
Charges - Roading Prof Svcs	942	1,122	1,122	0		2,239	2,239	0	
Professional Roading Services	3,750	4,452	4,452	0		8,901	8,901	0	
Charges - Asset Management	8,022	7,860	7,860	0		15,719	15,719	0	
Charges - Admin District	2,400	2,430	2,430	0		4,863	4,863	0	
Total Council Staff Support Costs	14,172	14,742	14,742	0		29,483	29,483	0	
Total Operating Expenditure	65,278	58,067	72,054	13,987		155,434	155,434	0	
Operating Revenue									
Twizel Works & Services Rates	45,327	36,386	14,003	22,383	X	91,252	91,252		
Other Income									
Transit-Street Lights & Clean	0	0	0	0		866	866	0	
NZTA Operational Subsidy	14,618	14,902	50,803	35,901	X	48,822	48,822	0	
Petroleum Tax	5,332	6,779	7,248	469	X	14,494	14,494	0	
Total Other Income	19,951	21,681	58,051	36,370	X	64,182	64,182	0	
Total Operating Revenue	65,278	58,067	72,054	13,987		155,434	155,434	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Variance	Note	Forecast	Budget	Variance	Note
OPENING BALANCE	82,969	63,487	63,487			63,487	63,487		
Capital Expenditure									
Subsidised Capital									
Signs	0	0	0	0		0	0	0	
Reseals	0	0	0	0		0	0	0	
Traffic Svcs Renwl - Signs EMP	0	11,476	1,032	10,444	X	2,064	2,064	0	
Sealed Road Resurfacing	0	0	0	0		97,756	97,756	0	
Total Subsidised Capital	0	11,476	1,032	10,444	X	99,820	99,820	0	
Unsubsidised Capital									
Footpaths - Surfacing	0	0	0	0		50,248	50,248	0	
Vested Assets	0	0	0	0		86,927	86,927	0	
Total Unsubsidised	0	0	0	0		137,175	137,175	0	
Total Capital Expenditure	0	11,476	1,032	10,444		236,995	236,995	0	
Capital Revenue									
Twizel Works & Services Rates	0	5,279	475	4,804	X	96,165	96,165	0	
Vested Assets	0	0	0	0		86,927	86,927	0	
NZTA Subsidy	0	6,197	557	5,640	✓	53,903	53,903	0	
	0	11,476	1,032	10,444		236,995	236,995	0	
	82,969	63,487	63,487			63,487	63,487		

Variance Analysis

1. Unbudgeted carry forward from 2009/2010 year

ROADING - RURAL
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Full Year to 30 June 2011		
						Variance		
								Note
OPENING BALANCE	0	0	0			0	0	
Operating Expenditure								
Capital Reserve Interest Paid	0	0	0	0		0	0	0
Roading Subsidised								
Struct Mtce - Bridges	49,690	20,846	43,950	23,104	✓	87,896	87,896	0
Struct Mtce - Cattle Stops	10,621	4,164	11,352	7,188	✓	22,704	22,704	0
St Lighting - Electricity	236	227	408	181	✓	821	821	0
St Lighting - Elec - Transit	569	567	1,092	525	✓	2,186	2,186	0
St Lighting - Mtce	768	538	1,548	1,010	✓	3,096	3,096	0
St Lighting - Mtce - Transit	1,632	1,144	3,096	1,952	✓	6,192	6,192	0
Sealed Pavement Mtce	66,315	84,104	49,734	34,370	X	99,470	99,470	0
Unsealed Pavement Mtce	166,284	217,717	256,986	39,269	✓	513,966	513,966	0
Drainage Mtce - Other	46,371	26,065	51,078	25,013	✓	102,160	102,160	0
Enviro Mtce - Snow & Ice Contr	18,247	16,805	0	16,805	X	0	0	0
Enviro Mtce - Vegetation Contr	27,233	42,892	17,502	25,390	X	35,000	35,000	0
Enviro Mtce - Other	18,299	19,906	13,368	6,538	X	26,736	26,736	0
Traffic Svcs Mtce - Signs EMPs	20,981	17,529	17,502	27	X	35,000	35,000	0
Emergency reinstatement	12,874	0	0	0		0	0	0
Network and Asset Management	0	0	5,160	5,160	✓	10,320	10,320	0
Total Subsidised Rooding	440,121	452,505	472,776	20,271	✓	945,547	945,547	0
Internal Charges								
Professional Rooding Business Unit	45,624	54,144	54,144	0		108,291	108,291	0
Charges - Asset Management	31,536	30,894	30,894	0		61,794	61,794	0
Charges - Admin District	10,944	11,100	11,100	0		22,198	22,198	0
Total Internal Charges	88,104	96,138	96,138	0		192,283	192,283	0
Total Operating Expenditure	528,225	548,643	568,914	20,271		1,137,830	1,137,830	0
Operating Revenue								
Rural Works & Services Rates	289,953	312,495	145,720	166,775	X	473,802	473,802	0
Other Income								
Transit-Street Lights & Clean	0	0	0	0		8,378	8,378	0
Other Income	(82)	0	19,434	19,434	X	38,870	38,870	0
NZTA Operating Subsidy	210,304	209,794	382,664	172,870	X	574,588	574,588	0
Petroleum Tax	9,742	12,385	12,564	179	X	25,124	25,124	0
Other Income	0	492	0	492	✓	0	0	0
Capital Reserve Interest	18,308	13,476	8,532	4,944	✓	17,068	17,068	0
Other Income	238,272	236,148	423,194	187,046	X	664,028	664,028	0
Total Operating Revenue	528,225	548,643	568,914	20,271		1,137,830	1,137,830	0
CLOSING BALANCE	0	0	0			0	0	

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Full Year to 30 June 2011		
						Variance		
								Note
OPENING BALANCE	846,946	667,349	667,349			667,349	667,349	
Capital Expenditure								
Subsidised								
Unsealed Road Metalling	156,366	48,251	149,840	101,589	✓	279,840	279,840	0
Pavement rehabilitation	0	44,601	94,902	50,301	✓	189,800	189,800	0
Struc Com Repl - Bridges Cstop	1,379	3,529	4,000	471	✓	14,448	14,448	0
Drainage Renewals - Culverts	10,416	8,630	0	8,630	X	0	0	0
Traffic Svcs Renwl - Signs EMPs	42,062	19,049	0	19,049	X	0	0	0
Associated improvements	0	0	2,064	2,064	✓	4,128	4,128	0
Minor Improvements	9,071	0	0	0		183,000	183,000	0
Reseals	1,497	106	0	106	X	183,624	183,624	0
Total Subsidised	220,791	144,598	300,852	156,254	✓	954,924	954,924	0
Unsubsidised								
Sealing Past Houses	0	0	0	0		0	0	0
Total Unsubsidised	0	0	0	0		0	0	0
Total Capital Expenditure	220,791	144,598	300,852	156,254		954,924	954,924	0
Capital Revenue								
Rural Works & Services Rates	94,940	66,515	138,392	71,877	✓	439,265	439,265	0
Upgrade Contributions	10,000	0	0	0		0	0	0
Capital Reserve Interest Received	0	0	0	0		0	0	0
NZTA Subsidies	125,851	78,083	162,460	84,377	X	515,659	515,659	0
Total Capital Revenue	230,791	144,598	300,852	156,254		954,924	954,924	0
CLOSING BALANCE	856,946	667,349	667,349			667,349	667,349	

Variance Analysis

- Unbudgeted carry forward from 2009/2010 year

ROADING - PROFESSIONAL SERVICES BUSINESS UNIT
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Full Year to 30 June 2011		
						Variance		
								Note
OPENING BALANCE	(108,688)	(48,834)	(48,834)			(48,834)	(48,834)	
Operating Expenditure								
Labour	52,069	44,525	53,844	9,319	✓	107,693	107,693	0
Consultancy				0				0
RAMM	2,289	17,123	15,000	2,123	X	30,000	30,000	0
Legal	0	0	0	0		0	0	0
Other Consultancy Services	12,499	5,750	9,000	3,250	✓	18,000	18,000	0
Total Consultancy	14,788	22,872	24,000	1,128	✓	48,000	48,000	0
Administration								
Advertising	930	752	414	338	X	829	829	0
Tools & Equipment	0	276	276	0	✓	550	550	0
Insurance	1,096	1,366	552	814	X	1,100	1,100	0
Other Expenses	0	0	0	0		0	0	0
Publications & Legislation	0	0	174	174	✓	343	343	0
Subscriptions	0	0	468	468	✓	932	932	0
Tolls & Rentals	146	133	258	125	✓	519	519	0
Total Administration	2,171	2,526	2,142	384	X	4,273	4,273	0
Capital Reserve Interest								
Interest on Capital Reserve	0	0	528	528	✓	1,057	1,057	0
Total Capital Reserve Interest	0	0	528	528	✓	1,057	1,057	0
General Maintenance								
Vehicle Expenses	6,730	14,291	5,778	8,513	X	11,553	11,553	0
General Maintenance	6,730	14,291	5,778	8,513	X	11,553	11,553	0
Council Support Costs				0				0
Charges - Admin District	13,446	13,776	13,776	0		27,546	27,546	0
Charges - Council Bldg Fairlie	1,680	1,692	1,692	0		3,380	3,380	0
Charges - CEO Department	4,578	4,530	4,530	0		9,065	9,065	0
Charges - Info Tech Support	4,764	5,106	5,106	0		10,206	10,206	0
Council Staff Support Costs	24,468	25,104	25,104	0		50,197	50,197	0
Total Operating Expenditure	100,226	109,319	111,396	2,077		222,773	222,773	0
Operating Revenue								
Transfund New Zealand	44,710	53,605	51,858	1,747	✓	103,712	103,712	0
Other Income	0	0	1,038	1,038	X	2,072	2,072	0
Total Other Income	44,710	53,605	52,896	709	✓	105,784	105,784	0
Council Staff Support Income								
Income - Fairlie Subs Roding	1,188	1,410	1,410	0		2,822	2,822	0
Income - Tekapo Subs Roding	1,008	1,200	1,200	0		2,398	2,398	0
Income - Twizel Subs Roding	2,808	3,330	3,330	0		6,662	6,662	0
Income - Rural Subs Roding	35,748	42,426	42,426	0		84,850	84,850	0
Income - Fairlie Unsub Roding	852	1,014	1,014	0		2,027	2,027	0
Income - Tekapo Unsub Roding	2,430	2,886	2,886	0		5,768	5,768	0
Income - Twizel Unsub Roding	942	1,122	1,122	0		2,239	2,239	0
Income - Rural Unsub Roding	9,876	11,718	11,718	0		23,441	23,441	0
Transfer to Capital Reserve	(644)	(606)	(606)	0		(1,215)	(1,215)	0
Total Council Staff Support Income	54,208	64,500	64,500	0		128,992	128,992	0
Total Operating Revenue	98,918	118,105	117,396	709		234,776	234,776	0
CLOSING BALANCE	(109,996)	(40,048)	(42,834)			(36,831)	(36,831)	

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Full Year to 30 June 2011		
						Variance		
								Note
OPENING BALANCE	1,973	6,195	6,195			6,195	6,195	
Capital Expenditure								
Plant & Equipment	0	0	0	0		0	0	0
Total Capital Expenditure	0	0	0	0		0	0	0
Capital Revenue								
Council Staff Support Income	644	606	606	0		1,215	1,215	0
Total Capital Revenue	644	606	606	0		1,215	1,215	0
CLOSING BALANCE	2,617	6,801	6,801			7,410	7,410	

Variance Analysis

SOLID WASTE ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Actual	Budget	Variance	Note
Full Year to 30 June 2011									
OPENING BALANCE	21,619	(38,869)	(38,869)			(38,869)	(38,869)		
Operating Expenditure									
Labour	129,582	111,109	123,978	12,869	✓	247,952	247,952	0	
Members Costs	0	0	0	0		0	0	0	
Consultancy	3,118	3,020	714	2,306	X	4,124	4,124	0	
Administration	7,075	5,710	6,864	1,154	✓	13,711	13,711	0	
Capital Reserve Interest Paid	15,380	11,008	15,072	4,064	✓	30,164	30,164	0	
General Maintenance	244,123	223,269	267,302	44,033	✓ 1	533,833	533,833	0	
Council Staff Support Costs	190,800	66,624	66,624	0		133,230	133,230	0	
Total Operating Expenditure	590,078	420,740	480,554	59,814		963,014	963,014	0	
Operating Revenue									
Albury Refuse Rates	6,468	6,498	6,498	0		12,992	12,992	0	
General Rates	243,330	109,111	193,563	84,452	✓	343,271	343,271	0	
Fairlie Refuse Rates	12,840	12,690	12,690	0		25,384	25,384	0	
Tekapo Refuse Rates	9,440	7,734	7,734	0		15,469	15,469	0	
Twizel Refuse Rates	20,934	19,848	19,848	0		39,698	39,698	0	
Rural Works & Services Rates	264	276	276	0		550	550	0	
Total Rates	293,277	156,157	240,609	84,452	✓	437,364	437,364	0	
Other Income	140,097	138,236	112,148	26,088	✓	224,282	224,282	0	
Council Staff Support Income	169,548	44,994	44,550	444	✓	89,093	89,093	0	
Total Operating Revenue	602,921	339,386	397,307	57,921		750,739	750,739	0	
CLOSING BALANCE	34,462	(120,222)	(122,116)			(251,144)	(251,144)		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Actual	Budget	Variance	Note
Full Year to 30 June 2011									
OPENING BALANCE	(681,151)	(624,804)	(624,804)			(624,804)	(624,804)		
Capital Expenditure									
Resource Recovery Parks	0	0	0	0		0	0	0	
Organic Waste	0	0	0	0		0	0	0	
Total Capital Expenditure	0	0	0	0		0	0	0	
Capital Revenue									
Total Rates (Funded Deprn)	31,662	24,246	24,690	444	✓	49,354	49,354	0	
Council Staff Support Income	18	18	462	444	X	924	924	0	
Total Capital Revenue	31,680	24,264	25,152	888		50,278	50,278	0	
CLOSING BALANCE	(649,471)	(600,540)	(599,652)			(574,526)	(574,526)		

Variance Analysis

1. Lower than anticipated consent monitoring costs for Closed Landfills and Fairlie (\$4,122 and \$969 respectively) coupled with reduced transportation costs (\$19,730) for recycling as well as reduced Organics costs of \$7,158 have resulted in a favourable variance.

SOLID WASTE ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Actual	Budget	Variance	Note
Full Year to 30 June 2011									
OPENING BALANCE	21,619	(38,869)	(38,869)			(38,869)	(38,869)		
Operating Expenditure by Activity									
Management	52,253	50,504	48,954	1,550	X	100,596	100,596	0	
Refuse Collection	40,828	40,747	45,366	4,619	✓	91,268	91,268	0	
Closed Landfills	1,336	1,344	6,246	4,902	✓	11,183	11,183	0	
Resource Recovery Parks	249,059	117,574	134,376	16,802	✓	268,767	268,767	0	
Hardfill Sites	3,239	2,578	4,470	1,892	✓	8,940	8,940	0	
Residual Waste	128,539	145,450	143,262	2,188	X	286,500	286,500	0	
Recycling	29,747	20,457	40,734	20,277	✓	81,467	81,467	0	
Organics	85,077	42,086	57,146	15,060	✓	114,293	114,293	0	
Total Operating Expenditure	590,078	420,740	480,554	59,814		963,014	963,014	0	
Operating Revenue									
Targeted Rates (Townships)	49,682	46,770	46,770	0		93,543	93,543	0	
Rural Works and Services	264	276	276	0		550	550	0	
General Rates	243,330	109,111	193,563	84,452	✓	343,271	343,271	0	
Other Income	140,097	138,236	112,148	26,088	✓	224,282	224,282	0	
Internal Council Income	169,548	44,994	44,550	444	✓	89,093	89,093	0	
Total Operating Revenue	602,921	339,386	397,307	57,921		750,739	750,739	0	
CLOSING BALANCE	34,462	(120,222)	(122,116)	1,893		(251,144)	(251,144)	0	

BUILDING CONTROL ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

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OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Labour	67,574	66,929	69,516	2,587	√	139,024	139,024	0	
Members Costs				0				0	
Consultancy	8,753	0	6,012	6,012	√	12,031	12,031	0	
Administration	24,866	35,172	6,070	29,102	X 3	32,132	32,132	0	
Capital Reserve Interest Paid	(5)	5	0	5	X	0	0	0	
General Maintenance	6,921	14,076	8,280	5,796	X 1	16,557	16,557	0	
Council Staff Support Costs	40,998	41,346	41,346	0		82,701	82,701	0	
Total Operating Expenditure	149,107	157,528	131,224	26,304		282,445	282,445	0	
Operating Revenue									
Total Rates	7,150	45,975	41,140	4,835	X	102,286	102,286	0	
Other Income	140,457	110,053	88,584	21,469	√ 2	177,159	177,159	0	
Council Staff Support Income	1,500	1,500	1,500	0		3,000	3,000	0	
Total Operating Revenue	149,107	157,528	131,224	26,304		282,445	282,445	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	2,295	607	607			607	607		
Capital Expenditure									
Total Capital Expenditure	0	0	0	0		0	0	0	
Capital Revenue									
General Rates	0	0	0	0		0	0	0	
Total Capital Revenue	0	0	0	0		0	0	0	
CLOSING BALANCE	2,295	607	607			607	607		

Variance Analysis

1. Due to increase in internal charge out of Motor vehicles to 48c per km
2. Increased revenue from Building consent fees
3. Includes \$33,340 call from Riskpool. This will be funded from the Special Reserve created in 2009/2010 to cover this expenditure.

RESOURCE MANAGEMENT ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Labour	90,474	94,292	92,958	1,334	X	185,914	185,914	0	
Members Costs				0				0	
Consultancy	15,728	172,389	8,292	164,097	X 1	16,576	16,576	0	
Administration	16,439	5,188	7,284	2,096	✓	14,563	14,563	0	
Capital Reserve Interest Paid	2,652	5,059	1,548	3,511	X 2	3,098	3,098	0	
General Maintenance	4,865	10,778	10,868	90	✓	16,557	16,557	0	
Council Staff Support Costs	58,302	59,628	59,628	0		119,263	119,263	0	
Total Operating Expenditure	188,460	347,335	180,578	166,757		355,971	355,971	0	
Operating Revenue									
General Rates	135,104	295,567	127,094	168,473	X 1	249,008	249,008	0	
Other Income	35,265	37,265	38,982	1,717	X	77,963	77,963	0	
Real Estate Account Funding	3,590	0	0	0		0	0	0	
Council Staff Support Income	14,502	14,502	14,502	0		29,000	29,000	0	
Total Operating Revenue	188,460	347,335	180,578	166,757		355,971	355,971	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(51,671)	(235,944)	(235,944)			(235,944)	(235,944)		
Capital Expenditure									
Computers	0	0	0	0	✓	0	0	0	✓
Plan Change 15	0	0	32,502	32,502	✓	65,000	65,000	0	✓
Plan Change 13	31,990	0	45,000	45,000	✓	90,000	90,000	0	
Total Capital Expenditure	31,990	0	77,502	77,502		155,000	155,000	0	
Capital Revenue									
General Rates	3,126	66	11,820	11,754	✓	23,636	23,636	0	
Transfer Funding from General Res	0	0	0	0	X	0	0	0	X
Subdivision Res Contn Received	8,834	24,682	10,002	14,680	✓	20,000	20,000	0	
Subdivision Res Contn Transferred	(8,834)	(24,682)	(10,002)	14,680	X	(20,000)	(20,000)	0	
Total Capital Revenue	3,126	66	11,820	11,754		23,636	23,636	0	
CLOSING BALANCE	(80,535)	(235,878)	(301,626)			(367,308)	(367,308)		

Variance Analysis

1. Due to an accounting treatment change Plan Change 13 and 15 cannot now be capitalised. This has incurred an unfavourable variance of \$164,097. This now has a rates impact rather than a funded depreciation impact. The budget for both projects is recorded in the Capital Reserve Account.
2. Due to previous levels of Capitalised Plan Change 13 costs (\$235,944)

REGULATORY SERVICES ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

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OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Labour	9,736	5,659	9,912	4,253	√ 1	19,831	19,831	0	
Administration	19,447	16,039	16,574	535	√	24,288	24,288	0	
Capital Reserve Interest Paid	1,972	1,301	948	353	X	1,890	1,890	0	
General Maintenance	81,198	74,394	74,848	454	√	144,778	144,778	0	
Council Staff Support Costs	9,414	9,552	9,552	0		19,100	19,100	0	
Total Operating Expenditure	121,767	106,944	111,834	4,890		209,887	209,887	0	
Operating Revenue									
Total Rates	87,595	106,462	93,414	13,048	X	139,347	139,347	0	
Other Income	33,860	177	17,928	17,751	X	69,556	69,556	0	
Capital Reserve Interest Received	312	306	492	186	X	984	984	0	
Total Operating Revenue	121,767	106,944	111,834	4,890		209,887	209,887	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(48,781)	(46,338)	(46,338)			(46,338)	(46,338)		
Capital Expenditure									
Animal Control	0	0	3,552	3,552	√	7,100	7,100	0	
Rural Fire Control	7,600	4,200	3,108	1,092	X	6,216	6,216	0	
Total Capital Expenditure	7,600	4,200	6,660	2,460		13,316	13,316	0	
Capital Revenue									
Total Rates	18,714	16,110	16,110	0		32,211	32,211	0	
Total Capital Revenue	18,714	16,110	16,110	0		32,211	32,211	0	
CLOSING BALANCE	(37,667)	(34,428)	(36,888)			(27,443)	(27,443)		

Variance Analysis

1. Replacement Civil Defense Officer still to be made.

COMMUNITY SERVICES ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

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OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Administration	23,206	17,972	19,448	1,476	√	24,828	24,828	0	√
Grants	84,182	75,689	75,121	568	X	108,012	108,012	0	√
Capital Reserve Interest Paid	3,800	0	0	0		0	0	0	
General Maintenance	86,181	94,892	100,022	5,130	√	177,816	177,816	0	
Council Staff Support Costs	24,480	24,696	24,696	0		49,408	49,408	0	
Total Operating Expenditure	221,850	213,249	219,287	6,038		360,064	360,064	0	
Operating Revenue									
Total Rates	171,253	155,102	156,895	1,793	√	226,528	226,528	0	
Building Maintenance Reserve	5,130	13,729	17,500	3,771	X	22,500	22,500	0	
Other Income	40,455	43,435	42,954	481	√	107,159	107,159	0	
Capital Reserve Interest Received	5,012	982	1,938	956	X	3,877	3,877	0	
Total Operating Revenue	221,850	213,249	219,287	6,038		360,064	360,064	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(409,516)	73,308	73,308			73,308	73,308		
Capital Expenditure									
Pensioner Housing	376	0	0	0		0	0	0	
Total Capital Expenditure	376	0	0	0		0	0	0	
Capital Revenue									
Total Rates	10,380	10,818	10,818	0		21,642	21,642	0	
Total Capital Revenue	0	10,818	10,818	0		21,642	21,642	0	
CLOSING BALANCE	(409,892)	84,126	84,126			94,950	94,950		

Variance Analysis

No significant variance from budget

RECREATIONAL FACILITIES ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	2,053	1,654	1,654			1,654	1,654		
Operating Expenditure									
Labour	26,284	27,107	32,924	5,817	✓	66,698	66,698	0	
Consultancy	9,396	485	0	485	X	0	0	0	
Administration	130,531	110,996	108,567	2,429	X	160,334	160,334	0	
Capital Reserve Interest Paid	26,544	21,248	19,020	2,228	X	38,035	38,035	0	
General Maintenance	432,716	451,569	442,692	8,877	X	916,056	916,056	0	1
Council Staff Support Costs	94,650	94,566	94,566	0		189,140	189,140	0	
Total Operating Expenditure	720,121	705,971	697,769	8,202		1,370,263	1,370,263	0	
Operating Revenue									
Total Rates	555,934	619,720	605,092	14,628	X	1,084,606	1,084,606	0	
Other Income	154,886	63,525	62,828	697	✓	220,354	220,354	0	
Building Maintenance Reserve	5,345	20,659	18,938	1,721	✓	45,135	45,135	0	
Capital Reserve Interest Received	1,902	414	9,258	8,844	X	18,514	18,514	0	
Total Operating Revenue	718,067	704,317	696,115	8,202		1,368,609	1,368,609	0	
CLOSING BALANCE	0	0	0			0	0		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(1,033,201)	(792,245)	(792,245)			(792,245)	(792,245)		
Capital Expenditure									
Parks, Reserves & Township Maint	35,944	36,443	30,000	6,443	X	30,000	30,000	0	
Community Halls	36,621	7,390	4,000	3,390	X	4,000	4,000	0	
Total Capital Expenditure	72,565	43,834	34,000	9,834		34,000	34,000	0	
Capital Revenue									
Total Rates	6,654	2,760	2,760	0		5,519	5,519	0	
Capital Reserve Interest Received	1,002	784	972	188	X	1,939	1,939	0	
Funding from Land Subdivision Res	0	25,000	100,000	75,000	X	100,000	100,000	0	
Total Capital Revenue	7,656	28,544	103,732	75,188		107,458	107,458	0	
CLOSING BALANCE	(1,098,110)	(807,535)	(722,513)			(718,787)	(718,787)		

Variance Analysis

- Cleaning costs for Twizel Events centre are tracking up due to additional cleaning requirements due to the Events Centre toilets being used as a public toilet facility. Also included in this cost is an additional FCB approved unbudgeted replacement of the dosing unit at the Strathconan Pool (\$4,500)

COMMERCIAL ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

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OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	1,500,766	614,969	614,969			614,969	614,969		
Operating Expenditure									
Members Costs	18,802	12,500	15,498	2,998	√	31,000	31,000	0	
Consultancy	46,373	31,711	38,580	6,869	√ 1	87,520	87,520	0	
Administration	73,494	51,256	75,372	24,116	√	108,587	108,587	0	
Capital Reserve Interest Paid	80,634	62,785	86,208	23,423	√	172,414	172,414	0	
General Maintenance	133,912	164,160	143,679	20,481	X 2	275,167	275,167	0	
Council Staff Support Costs	61,632	62,466	62,466	0		124,927	124,927	0	
Total Operating Expenditure	414,847	384,878	421,803	36,925		799,615	799,615	0	
Operating Revenue									
Total Rates	(283,458)	(53,931)	(53,929)	2	√	24,715	24,715	0	
Capital Reserve Interest Received	115,485	65,474	135,312	69,838	X	270,632	270,632	0	
Other Income	1,440,679	354,137	303,226	50,911	√ 3	1,256,442	1,256,442	0	
Total Operating Revenue	1,272,705	365,679	384,609	18,930		1,551,789	1,551,789	0	
CLOSING BALANCE	2,358,625	595,770	577,775			1,367,143	1,367,143		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	344,691	823,148	823,148			823,148	823,148		
Capital Expenditure									
Pukaki Airfield	252,527	0	0	0		0	0	0	
Total Capital Expenditure	252,527	0	0	0		0	0	0	
Capital Revenue									
Capital Reserve Interest Received	(19,969)	5,968	7,500	1,532	X	15,000	15,000	0	X
Total Capital Revenue	(19,969)	5,968	7,500	1,532		15,000	15,000	0	
CLOSING BALANCE	72,194	829,116	830,648			838,148	838,148		

Variance Analysis

1. Lower than anticipated legal expenses YTD have resulted in a positive variance. The majority of the costs relating to the major land deal on the table at present were incurred in the previous financial year.
2. Forestry costs show an unfavourable variance of \$30,812 mainly due to the costs associated with the logging operations undertaken at the beginning of the financial year.
3. External Interest Revenue is up \$51,000 compared to budget due mainly in the growth of the investment portfolio.

CORPORATE SERVICES ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

√

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Labour	456,557	467,779	471,360	3,581	√	942,731	942,731	0	
Consultancy	55,842	71,432	46,548	24,884	X 1	93,101	93,101	0	
Administration	106,170	114,894	130,460	15,566	√	252,935	252,935	0	
Capital Reserve Interest Paid	4,357	0	2,052	2,052	√	4,096	4,096	0	
General Maintenance	98,359	105,795	109,450	3,655	√	190,133	190,133	0	
Council Staff Support Costs	164,022	167,082	167,082	0		334,176	334,176	0	
Total Operating Expenditure	885,307	926,983	926,952	31		1,817,172	1,817,172	0	
Operating Revenue									
Rates				0				0	
Other Income	38,268	41,876	46,296	4,420	X	92,584	92,584	0	
Capital Reserve Interest Received	1,206	0	0	0		0	0	0	
Council Staff Support Income	871,965	873,540	873,540	0		1,747,106	1,747,106	0	
Total Operating Revenue	911,439	919,208	928,932	9,724		1,857,890	1,857,890	0	
SURPLUS/(DEFICIT)	26,132	(7,775)	1,980			40,718	40,718		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	(53,561)	(46,046)	(46,046)			(46,046)	(46,046)		
Capital Expenditure									
Administration	0	11,338	11,250	88	X	22,500	22,500	0	
Information Technology Department	36,880	11,271	3,504	7,767	X	7,000	7,000	0	√
Total Capital Expenditure	36,880	22,609	14,754	7,855		29,500	29,500	0	
Capital Revenue									
Council Staff Support Income	27,141	29,754	29,754	0		59,510	59,510	0	
Total Capital Revenue	27,141	29,754	29,754	0		59,510	59,510	0	
CLOSING BALANCE	(63,300)	(38,901)	(31,046)			(16,036)	(16,036)		

Variance Analysis

1. Tax advice relating to the voluntary disclosure for Mackenzie Holdings Ltd amounting to \$8,037. Also additional cost of \$4,003 was incurred to provide District and ward boundary maps in relation to the representation review boundary changes.

VEHICLE ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

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OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	0	0			0	0		
Operating Expenditure									
Contractors	4,383	4,695	7,702	3,007	√	15,405	15,405	0	√
Insurance	2,010	1,995	2,994	999	√	2,994	2,994	0	√
Interest	266	2,491	3,640	1,149	√	7,280	7,280	0	√
Licences	1,886	2,192	1,940	252	X	1,940	1,940	0	√
Fuel	14,891	20,324	13,701	6,624	X	27,401	27,401	0	√
Total Operating Expenditure	23,436	31,697	29,977	1,721		55,020	55,020	0	
Operating Revenue									
Operating Expense Recoveries	24,271	46,100	28,550	17,550	X 1	57,100	57,100	0	√
Total Operating Revenue	24,271	46,100	28,550	17,550		57,100	57,100	0	
Over/(Under) Recovery	834	14,403	(1,427)			2,080	2,080		

CAPITAL RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance	Note	Forecast	Full Year to 30 June 2011 Budget	Variance	Note
OPENING BALANCE	0	(129,879)	(129,879)			(129,879)	(129,879)		
Capital Expenditure									
Total Capital Expenditure	0	0	0	0		0	0	0	
Capital Revenue									
Recoveries Funded Depn	9,657	14,139	14,139	0	√	28,278	28,278	0	√
Total Capital Revenue	9,657	14,139	14,139	0		28,278	28,278	0	
CLOSING BALANCE	9,657	(115,740)	(115,740)			(101,601)	(101,601)		

Variance Analysis

1. Change in Chargeout recovery to 48c as per Council resolution to collect sufficient revenue to clear prior years Capital reserve deficits and to fund replacement in future.

OVERALL OPERATING ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

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OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance Note	Forecast	Full Year to 30 June 2011 Budget	Variance Note
OPENING BALANCE	1,379,568	494,801	494,800		494,800	494,800	
Operating Expenditure							
Labour	858,467	852,707	881,666	28,959 √	1,764,195	1,764,195	0
Members Costs	112,126	138,229	119,798	18,431 X	237,599	237,599	0
Consultancy	156,512	308,969	151,400	157,569 X	326,446	326,446	0
Administration	521,841	461,341	475,163	13,822 √	795,842	795,842	0
General Maintenance	1,313,027	1,349,364	1,379,493	30,129 √	2,721,508	2,721,508	0
Capital Reserve Interest Paid	184,432	134,767	173,402	38,635 √	346,793	346,793	0
Plant Under Recovery	0	0	1,427	1,427 X	0	0	0
Roading	565,890	569,337	622,620	53,283 √	1,264,784	1,264,784	0
Council Support Costs	1,110,137	1,000,294	1,000,230	64 X	2,000,451	2,000,451	0
Total Operating Expenditure	4,822,433	4,815,009	4,805,199	9,811	9,457,618	9,457,618	0
Operating Revenue							
Total Rates	2,096,547	2,470,493	2,446,747	23,747 X	4,413,591	4,413,591	0
Building Maintenance Reserve	10,475	38,179	45,534	7,354 X	85,835	85,835	0
Plant Over Recoveries	834	14,403	0	14,403 √	2,080	2,080	0
Net Capital Reserve Interest Received	(55,734)	(63,340)	(22,718)	40,622 X	(45,432)	(45,432)	0
Other Income	2,357,784	1,145,576	1,314,974	169,399 X	3,250,357	3,250,357	0
Other Reserve Funding	3,590	0	0	0	0	0	0
Council Staff Support Income	1,111,723	999,036	998,592		1,997,191	1,997,191	0
Total Operating Revenue	5,525,218	4,604,347	4,783,128	178,781	9,703,622	9,703,622	0
CLOSING BALANCE	2,082,353	284,138	472,730		740,805	740,805	

OPERATING RESERVE STATEMENT	Last Year YTD Actual	Actual	Budget	Dec 2010 Variance Note	Forecast	Full Year to 30 June 2011 Budget	Variance Note
OPENING BALANCE	1,379,568	494,801	494,800		494,800	494,800	
Operating Expenditure (By Activity)							
Governance	357,127	391,729	363,890	27,839 X	722,755	722,755	0
Water	236,332	222,306	259,727	37,421 √	539,899	539,899	0
Sewer	138,872	122,349	131,098	8,749 √	250,466	250,466	0
Stormwater	17,534	18,831	20,558	1,727 √	49,542	49,542	0
Roading	780,937	803,042	858,498	55,456 √	1,736,525	1,736,525	0
Solid Waste	590,078	420,740	480,554	59,814 √	963,014	963,014	0
Building Control	149,107	157,528	131,224	26,304 X	282,445	282,445	0
Resource Management	188,460	347,335	180,578	166,757 X	355,971	355,971	0
Regulatory Services	121,767	106,944	111,834	4,890 √	209,887	209,887	0
Community Services	221,850	213,249	219,287	6,038 √	360,064	360,064	0
Recreational Facilities	720,121	705,971	697,769	8,202 X	1,370,263	1,370,263	0
Commercial Activities	414,847	384,878	421,803	36,925 √	799,615	799,615	0
Corporate Services	885,307	926,983	926,952	31 X	1,817,172	1,817,172	0
Plant	0	0	1,427	1,427 √	0	0	0
Total Operating Expenditure	4,822,339	4,821,884	4,805,199	16,685	9,457,618	9,457,618	0
Operating Revenue							
Total Rates	2,096,547	2,470,493	2,446,747	23,747 X	4,413,591	4,413,591	0
Building Maintenance Reserve	10,475	38,179	45,534	7,354 X	85,835	85,835	0
Net Capital Reserve Interest Received	(55,734)	(63,340)	(22,718)	40,622 X	(45,432)	(45,432)	0
Other Income	2,357,784	1,145,576	1,314,974	169,399 X	3,250,357	3,250,357	0
Other Reserve Funding	3,590	0	0	0	0	0	0
Plant Recoveries	834	14,403	0	14,403 √	2,080	2,080	0
Council Staff Support Income	1,111,723	999,036	998,592	444 √	1,997,191	1,997,191	0
Total Operating Revenue	5,525,218	4,604,347	4,783,128	178,781 X	9,703,622	9,703,622	0
CLOSING BALANCE	2,082,447	277,264	472,730		740,805	740,805	

OVERALL CAPITAL ACTIVITY
FINANCIAL REPORT FOR DECEMBER 2010

CAPITAL RESERVE STATEMENT	Last Year	Actual	Budget	Dec 2010		Forecast	Full Year to 30 June 2011	
	YTD Actual			Variance	Note		Budget	Variance Note
OPENING BALANCE	(2,190,366)	245,176	245,176			245,176	245,175	
Capital Expenditure								
Water	41,844	51,304	67,584	16,280	✓	785,114	785,114	0
Sewerage	49,213	189,571	200,000	10,429	✓	327,000	327,000	0
Stormwater	0	0	12,000	12,000	✓	20,000	20,000	0
Roading	221,041	163,142	310,644	147,502	✓	1,225,736	1,225,736	0
Solid Waste	0	0	0	0		0	0	0
Resource Management	31,990	0	77,502	77,502	✓	155,000	155,000	0
Regulatory Services	7,600	4,200	6,660	2,460	✓	13,316	13,316	0
Community Services	376	0	0	0		0	0	0
Recreational Facilities	72,565	43,834	34,000	9,834	X	34,000	34,000	0
Commercial Activities	252,527	0	0	0		0	0	0
Corporate Services	36,880	22,609	14,754	7,855	X	29,500	29,500	0
Vested Assets from Developers	0	0	0			299,770	299,770	
Total Capital Expenditure	714,035	474,659	723,144	248,485		2,889,436	2,889,436	0
Capital Revenue								
Total Rates (Funded Depn)	445,928	424,012	487,056	63,044	✓	1,310,998	1,310,998	0
Indirect Funded Depreciation	27,803	30,378	30,822	444	✓	61,649	61,649	0
Land Subdivision Reserve	0	25,000	100,000	75,000	X	100,000	100,000	0
Water	24,914	5,902	12,588	6,686	X	62,378	62,378	0
Sewerage	66,033	22,675	50,806	28,131	X	145,693	145,693	0
Stormwater	1,196	1,445	0	1,445	✓	0	0	0
Roading	251,837	177,863	320,532	142,669	X	1,245,525	1,245,525	0
Community Services	(10,380)	0	0	0		0	0	0
Recreational Facilities	(0)	0	0	0		0	0	0
Commercial Activities	0	0	0	0		0	0	0
Vested Assets from Developers	0	0	0			299,770	299,770	
Total Capital Revenue	807,331	687,276	1,001,804	314,528		3,226,013	3,226,013	0
CLOSING BALANCE	(2,097,070)	457,793	523,836			581,752	581,752	

Variance Analysis

MACKENZIE DISTRICT COUNCIL

REPORT TO: FINANCE COMMITTEE

SUBJECT: BANCORP QUARTERLY REPORT – DECEMBER 2010

MEETING DATE: 1 FEBRUARY 2011

REF: FIN 9/1/9

FROM: MANAGER – FINANCE AND ADMINISTRATION

ENDORSED BY: CHIEF EXECUTIVE OFFICER

PURPOSE OF REPORT:

The report has been tabled to inform Councillors of the performance of the Council's investment portfolio, which is managed by Bancorp Treasury Services Limited.

STAFF RECOMMENDATIONS:

1. That the report be received.

PAUL MORRIS
MANAGER – FINANCE & ADMINISTRATION

GLEN INNES
CHIEF EXECUTIVE OFFICER

ATTACHMENTS:

Appendix 1: Quarterly report from Bancorp Treasury Services to 31 December 2010.

PARTICULAR POINTS TO NOTE:

Comparison with the Benchmark

The Council's portfolio increased in value by 1.27%, whereas the benchmark portfolio increased in value by 0.81% over the quarter, therefore the Council's Portfolio outperformed compared to the benchmark. There are a number of reasons why Council's portfolio outperformed the benchmark index summarized as follows.

Council was able to outperform the benchmark index due to favourable movements in credit spreads for specific bonds in Council's portfolio which was not replicated in the benchmark index.

Movements in the Portfolio

The portfolio stands at \$6 Million. The portfolio increased by \$0.50 million over the period. Details of the purchases are as follows:

- Bought \$0.25million of ANZ/National Bank sub-ordinated debt maturing July 2012 with coupon of 8.23% at a yield of 5.95%
- Bought \$0.25million of Manukau City Council Bonds maturing July 2012 with a coupon of 6.52% at a yield of 6.27%.

At the end of March the weighted average running yield of Council's bond portfolio was 7.13%.

Policy Adherence

- All financial market investments comply with the counterparty exposure limits as outlined in the Treasury Policy.
- All investments are readily tradable (liquid) on the secondary market.
- The duration of MDC's portfolio at 2.37 years is well within the 25% allowable fluctuation band of the benchmark portfolio's duration of 2.16 years.
- Assets category percentages are as follows (excluding the call deposit):
 - Corporates 29.17%
 - Registered Banks 54.16%
 - Local Authorities 16.67%

Financial Market Movements

There were no movements in the Official Cash rate during the period.

QUARTERLY PORTFOLIO REPORT

PREPARED FOR



For the 3 months ending 31 December 2010

PREPARED BY BANCORP TREASURY SERVICES LIMITED



AUCKLAND • WELLINGTON • CHRISTCHURCH

**PORTFOLIO REPORT
FOR
MACKENZIE DISTRICT COUNCIL
FOR THE THREE MONTHS TO 31 DECEMBER 2010**

Please find detailed below a summary of the performances of the Mackenzie District Council's ("MDC") Long term Funds Portfolio and the benchmark portfolio for the three months ending 31 December 2010.

The MDC's Long Term Funds Portfolio, on an open to close valuation basis with coupons received during the quarter included, increased in value over the quarter by 1.27%.

Portfolio Value 30/09/2010	\$ 5,817,642
Portfolio Value 31/12/2010	\$ 6,284,200
Add Coupon Payments	\$ 121,027
Net Cash – Purchases/Sales/Maturities	\$ -513,591
	<hr/>
Total	\$ 5,891,636
	<hr/>
Change in Effective Cash Value	+ 1.27%

The benchmark portfolio of fixed interest investments, on an open to close valuation basis with coupons received during the quarter included, increased in value by 0.81%.

Benchmark Portfolio Value 30/09/2010	\$ 9,500,781
Benchmark Portfolio Value 31/12/2010	\$ 9,430,799
Add Coupon Payments	\$ 147,200
	<hr/>
Total	\$ 9,577,999
	<hr/>
Percentage Change in Effective Cash Value	+ 0.81%

PORTFOLIO ACTIVITY

A summary of the MDC Long Term Funds Portfolio ("LTFF") during the December 2010 quarter is as follows.

- MDC's portfolio outperformed the benchmark index, increasing in value by 1.27% compared to the benchmark portfolio's increase of 0.81%.
- The running yield of the portfolio as at 31 December was 7.13%.
- The nominal value of the portfolio increased by \$0.50 million to \$6.00 million.

During the December 2010 quarter, short term interest rates in New Zealand were very stable. Both the market and the Reserve Bank of New Zealand ("RBNZ"), in response to a deteriorating economic outlook, pushed back the timing of the next increase in the Official Cash Rate ("OCR") as well as scaling back the extent of future increases. However medium and longer term rates rose sharply as a result of a significant rise in US bond yields; the benchmark US 10 year Treasury bond climbed from 2.51% at the beginning of October to 3.29% by the end of December 2010. The increase in medium and longer term rates in New Zealand led to a significant steepening of the yield curve with the spread between the 2 and 10 year swap rates increasing from 114 basis points to 173 basis points during the quarter. Changes to interest rates during the quarter are detailed in the table below.

	OCR	90 day	1 year swap	2 year swap	3 year swap	5 year swap	10 year swap
30 September 2010	3.00%	3.17%	3.39%	3.67%	3.89%	4.23%	4.81%
31 December 2010	3.00%	3.18%	3.39%	3.80%	4.18%	4.73%	5.53%
Change	Nil	+0.01%	Nil	+0.13%	+0.29%	+0.60%	+0.72%

The reason that MDC's portfolio was able to outperform the benchmark index was due to favourable movements in credit spreads for specific bonds in MDC's portfolio which were not replicated in the benchmark index. The benchmark index had a shorter duration (2.16 years) than MDC's portfolio (2.37 years) and given the rise in interest rates that occurred during the quarter it would be 'normal' to expect a portfolio with a shorter duration to outperform one with a longer duration. Details of the two bonds which produced the out performance are as follows.

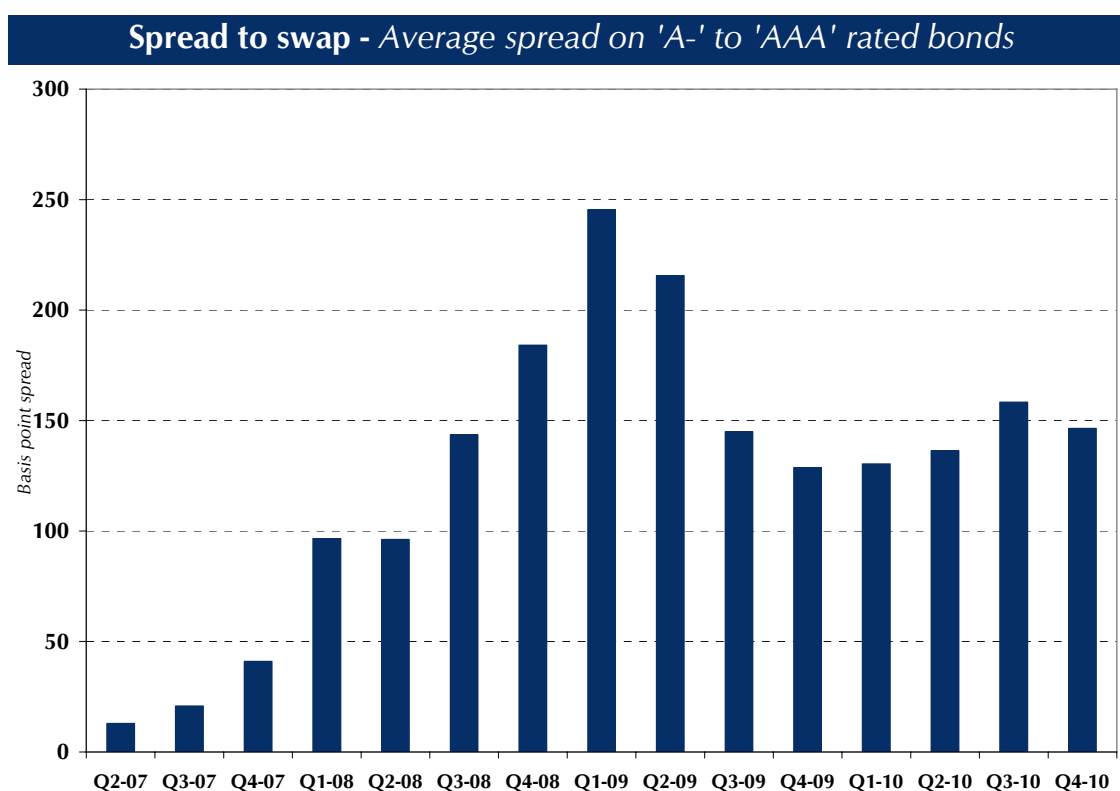
ANZ/National Bank perpetual bond with 9.66% coupon (\$500,000). While this bond is technically a perpetual instrument, for valuation purposes it is treated as having a maturity date of 18 April 2013 as this is the next interest rate reset date. As at 30 September 2010, the yield applying to this bond was 8.40% and at 31 December 2010, the applicable yield was 8.17%. This decline in yield occurred over the period when the underlying swap rate actually increased, from 3.78% on 30 September 2010 to 3.90% on 31 December 2010.

Manukau City Council bond maturing September 2017 with a 6.52% coupon (\$500,000). As at 30 September 2010, the yield applying to this bond was 6.31% and at 31 December 2010, the applicable yield was 6.43%. During the quarter, the underlying swap rate increased from 4.61% to 5.05% or 44 basis points, yet the yield on the bond only increased by 12 basis points.

During the quarter, the nominal value of MDC's portfolio increased by \$0.50 million to \$6.00 million, details of the purchases being as follows.

- Bought \$0.25 million of ANZ/National Bank subordinated debt maturing July 2012 with a coupon of 8.23%, at a yield of 5.95%.
- Bought \$0.25 million of Manukau City Council bonds, maturing July 2012 with a coupon of 6.52%, at a yield of 6.27%.

During the December 2010 quarter credit spreads declined slightly as investor demand for good quality 'credits' outstripped supply. The chart below depicts the average spread for all NZD denominated bonds (with the exception of the supra-nationals) rated between 'A-' and 'AAA'. At the end of September 2010, the average spread was 158 basis points. At the end of December 2010, it had fallen to 146 basis points.



NEW ZEALAND FINANCIAL MARKET OVERVIEW

In New Zealand, economic data releases during the December 2010 quarter were mixed, but if needed to be summarised as giving rise to either optimism or pessimism, then probably the latter would apply. In a surprise to some market participants, GDP data for the September quarter, which was released just prior to Christmas, showed that the economy contracted by 0.2%, being below market expectations of a 0.1% rise. If the GDP data for the December 2010 quarter is again negative, which many expect it to be, meaning that technically the New Zealand economy fell back into recession in the second half of 2010.

Inflation data showed that inflation was muted at just 1.5% for the year ending 30 September 2010, while the inflation spike caused by the GST rise on 1 October 2010 is expected to be short-lived. NZIER's latest inflation predictions are for the annual CPI rate to peak at 4.8% in the June 2011 year and returning to 2.1% in the December 2011 year, once the effects of the recent GST rise work through the inflation figures.

The financial markets received a shock in early November when Standard & Poor's (S&P) shifted its outlook for New Zealand's foreign currency credit rating from 'stable' to 'negative'. S&P stated that the main reason for this change was New Zealand's reliance on foreign debt as a source of raising funds and that, if this position did not improve, a downgrade from the current AA+ is a possibility. Following on from this, the RBNZ's six monthly *Financial Stability Report* released in early November was distinctly downbeat, describing the domestic recovery as "tepid" and warning that the strong New Zealand dollar would further delay any rebalancing of economic activity towards the tradables sector.

Business confidence increased during the quarter. After falling to a low of 14% in September, the National Bank's Business Confidence survey rebounded with the number of respondents who expected business conditions to improve over the ensuing twelve months increasing to 24% in October and 33% in November. In another positive sign, data released in early November showed that the unemployment rate fell in the September quarter, down to 6.4% from a revised 6.9% in the June quarter. Expectations had been for a fall to 6.7%.

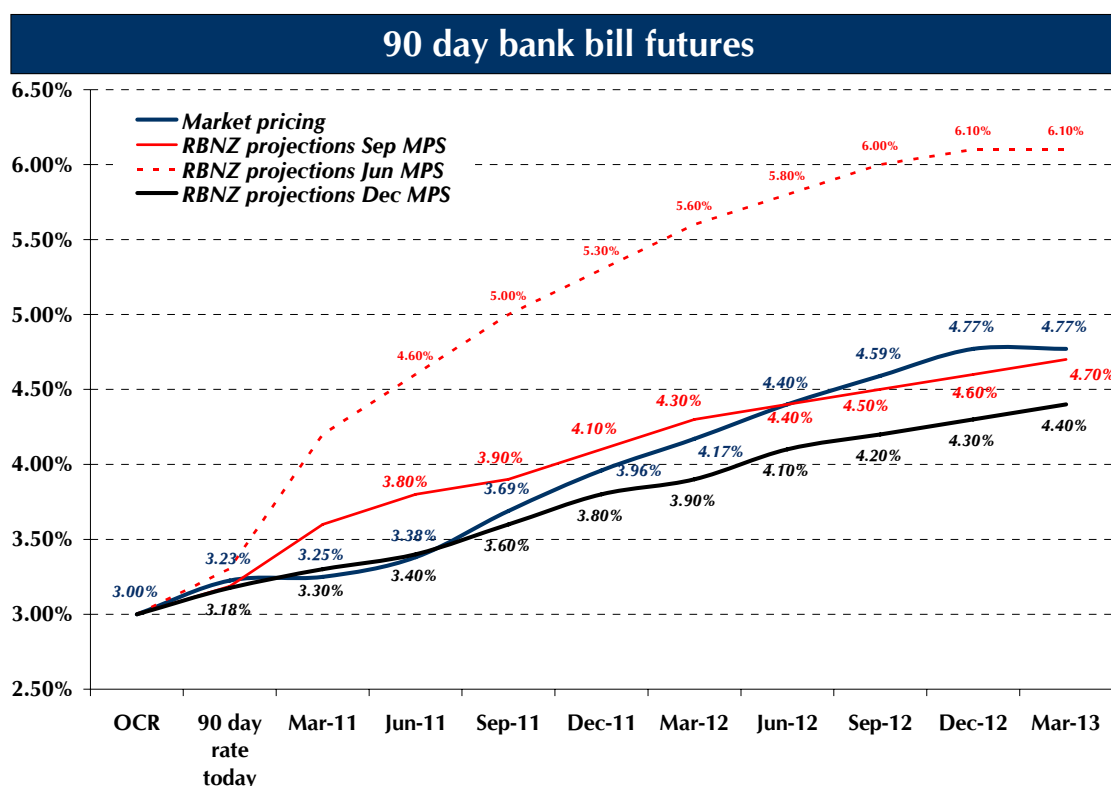
Against this backdrop, the Reserve Bank of New Zealand ("RBNZ") left the Official Cash Rate ("OCR") at 3.00% in both the October *OCR Review* and the December *Monetary Policy Statement* ("MPS"). In the MPS, RBNZ Governor Dr Alan Bollard noted that *"the pace of economic growth appears to have moderated"* and the *"current low interest rates are having a less stimulatory effect than in the past."* Somewhat tellingly, Dr. Bollard stated that *"for now it seems prudent to keep the OCR low until the recovery becomes more robust and underlying inflationary pressures show more obvious signs of increasing."*

NEW ZEALAND OUTLOOK

There is an almost universal expectation for the OCR to remain at 3.00% until mid 2011 at least and for the 90 day rate to rise only gradually to just under 4.50% by the end of 2012. In the December MPS, the RBNZ once again lowered its assumed track for the 90 day bank bill rate, recognising that the New Zealand economy's recovery will be a slow one. The chart on the following page shows the futures market expectations for the path of the 90 day bill rate and the RBNZ predictions from the June, September and December MPSs, and vividly illustrates the extent of the RBNZ's revisions over the last six months.

By the end of the December 2010 quarter, the steepening of the yield curve, driven by the increase in medium and longer term rates, looked to a little overdone. The move up in yields resulted from an 'unusual' rise in long term US Treasuries yields and was exacerbated by a lack of liquidity in domestic

bonds. We expect to see some flattening of the yield curve early in 2011, with medium and longer term rates falling rather than short term rates moving up.



LOCAL AUTHORITY SECTOR

During the December 2010 quarter, there was a lack of bond issuance by local authorities. As a result margins for both rated and unrated local authority bonds contracted, with investors contacting potential lead managers/arrangers with 'reverse enquiries'. Under these, investors indicate a willingness to purchase bonds at an indicative margin subject to the actual name of the issuer. This is in contrast to the lead manager/arranger approaching potential investors with a 'specific' name who is looking to issue.

Margins for bank sourced local authority debt for tenors up to 3 years continued to contract during the quarter, and provided that the 'name' was viewed favourably by a bank, it resulted in many cases, in cheaper funding than bonds of a similar tenor. For terms beyond 3 years, bond issuance appeared to be cheaper with local authorities able to issue for tenors up to 7 years. We were not aware of any local authority issuance for tenors beyond 7 years during the three month period.

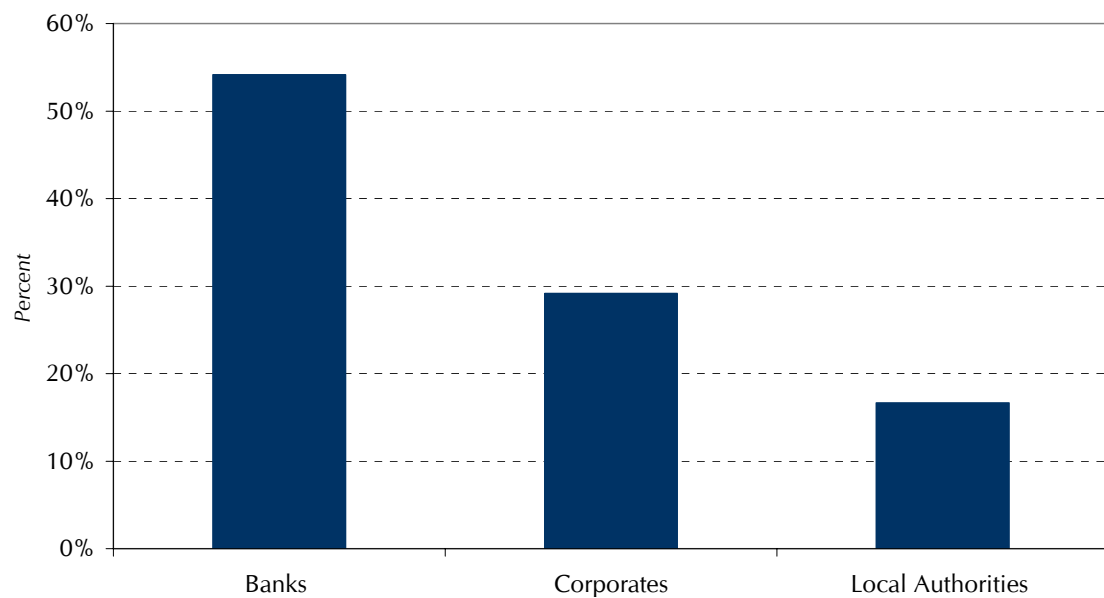
POLICY ADHERENCE

- As at 31 December, all financial market investments comply with the counterparty exposure limits.
- As far as liquidity is concerned, all of the bonds in the portfolio have been traded regularly on the secondary market over the quarter and therefore we are confident that any of the bonds would be able to be sold at short notice if required.

- The duration of the MDC portfolio at 2.37 years is within the 25% allowable fluctuation band of the benchmark portfolio's duration of 2.16 years.
- The asset category percentages comply with the Treasury Policy and are listed below and are depicted in the graph below.

-	Registered Banks	54.16%
-	Corporates	29.17%
-	Local Authorities	16.67%

Mackenzie Asset Category Percentages



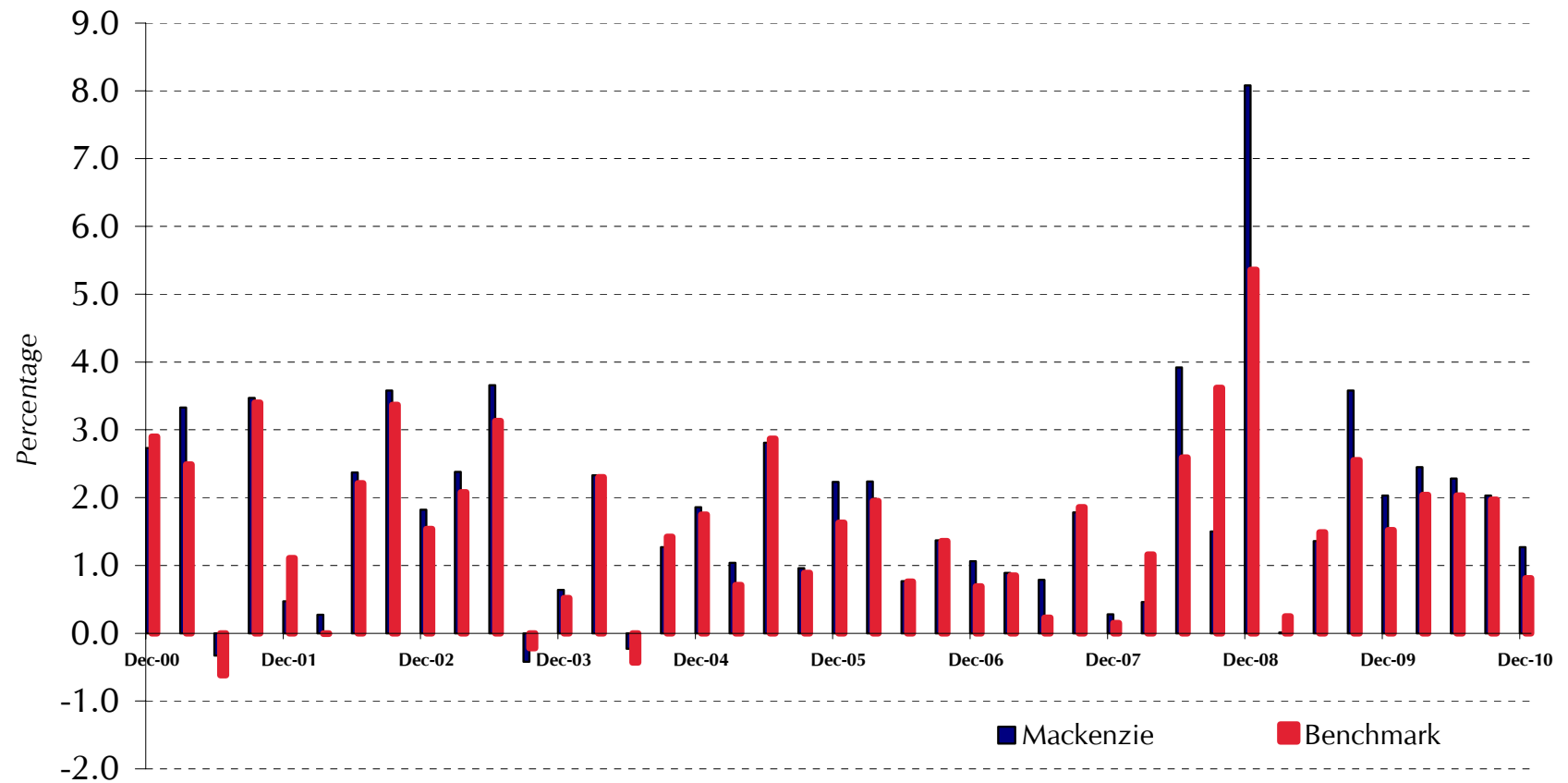
Benchmark

Security	Issue Date	Maturity Date	Coupon	30-Sep-10	Yield	Value	31-Dec-10	Coupons	Yield	Value	Effective cash
				Nominal \$			Nominal \$	01/10 to 31/12 \$			
3 month Bank Bill	31-Dec-10	31-Mar-11		1,000,000	3.18	992,048	1,000,000		3.17	992,244	992,244
AIAL	15-Nov-07	29-Jul-11	6.83	1,000,000	5.03	1,026,032	1,000,000		4.84	1,039,938	1,039,938
Toyota Finance	15-Aug-06	5-Aug-11	7.34	1,000,000	4.28	1,036,302	1,000,000		3.95	1,049,299	1,049,299
ANZ National (sub)	16-Nov-07	23-Jul-12	8.23	1,000,000	6.21	1,049,413	1,000,000		5.96	1,069,335	1,069,335
Westpac	16-Sep-02	28-Nov-13	7.04	1,000,000	5.25	1,075,321	1,000,000	35,200	5.42	1,049,408	1,084,608
Auck CC	20-Apr-04	24-Mar-14	6.42	1,000,000	5.41	1,032,729	1,000,000		5.50	1,044,156	1,044,156
Fonterra	21-Apr-04	21-Apr-14	6.86	1,000,000	5.55	1,072,084	1,000,000	34,300	5.71	1,047,461	1,081,761
BNZ	21-Apr-04	27-May-15	8.67	1,000,000	5.77	1,146,531	1,000,000	43,350	6.17	1,103,220	1,146,570
Chch City Holdings	27-Jun-10	27-Jun-16	6.87	1,000,000	5.78	1,070,321	1,000,000	34,350	6.11	1,035,738	1,070,088
				<u>\$9,000,000</u>		<u>\$9,500,781</u>	<u>\$9,000,000</u>	<u>\$147,200</u>		<u>\$9,430,799</u>	<u>\$9,577,999</u>
Value as at 30/09/2010						\$9,500,781			31/12/10		9,430,799
									Coupons		147,200
									Net Purchases/Sales		0
											9,577,999
									Effective change in cash		\$77,218
									% change		0.81%
									Duration-years		2.16

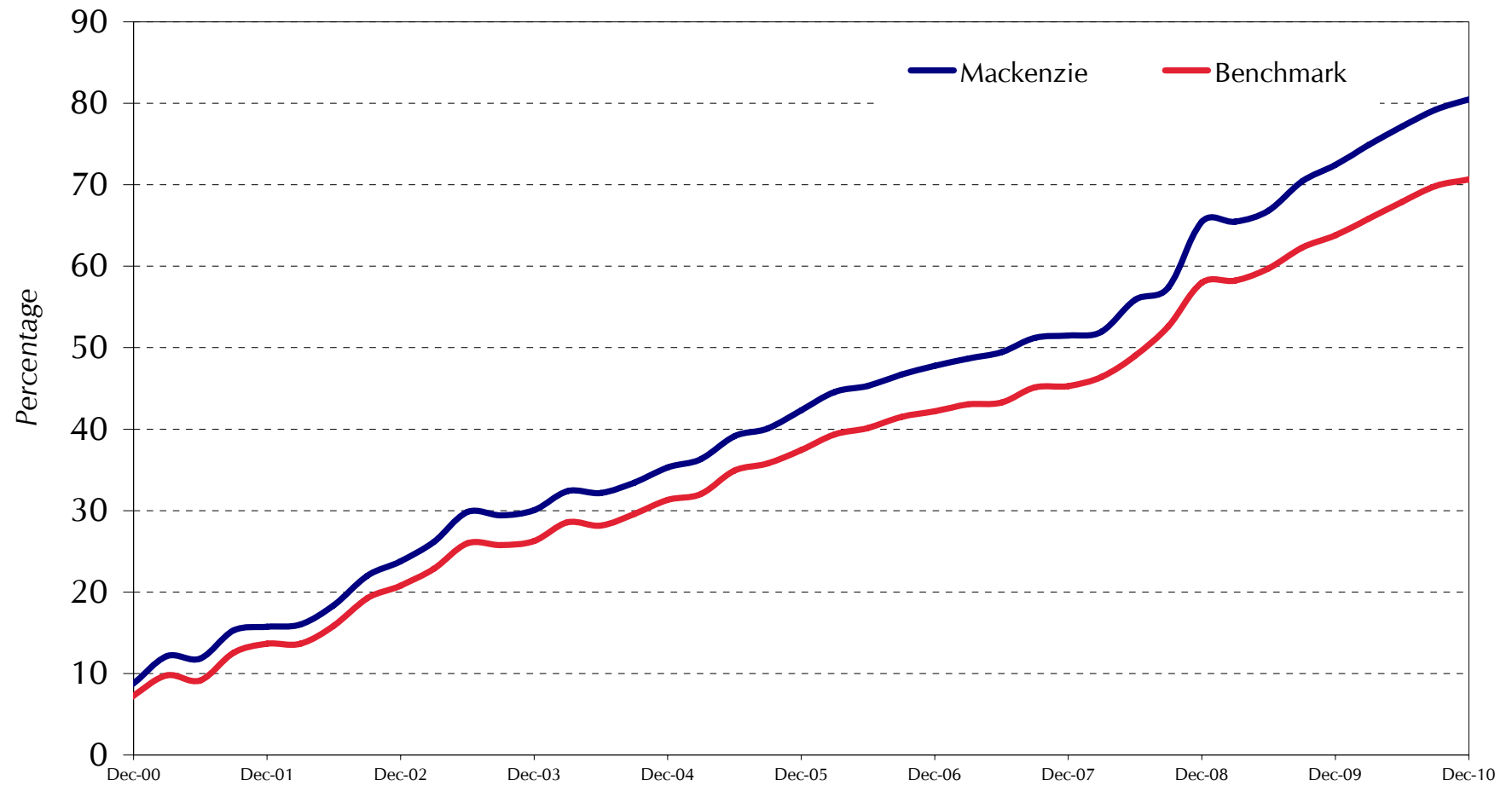
Mackenzie District Council

Security	Issue Date	Maturity Date	Coupon	30-Sep-10	Yield	Value	31-Dec-10	Coupons	Yield	Value	Effective Cash
				Nominal \$			Nominal \$	01/10 to 31/12			31/12/2010 \$
WESTPAC	18-Apr-08	18-Apr-11	8.87	500,000	3.96	533,182	500,000	\$17,175	3.82	516,345	533,520
FONTERRA	30-May-05	21-Apr-11	6.64	500,000	3.89	522,188	500,000	\$16,600	3.84	510,643	527,243
TELSTRA	24-Nov-04	24-Nov-11	6.99	500,000	4.33	526,971	500,000	\$17,475	4.20	515,709	533,184
ANZ NATIONAL sub	2-Mar-07	2-Mar-12	7.60	250,000	6.15	256,318	250,000		5.85	261,141	261,141
ANZ NATIONAL sub	23-Jul-07	23-Jul-12	8.23				250,000		5.96	267,334	267,334
MORGAN STANLEY	6-Sep-05	6-Sep-12	6.86	500,000	6.17	508,443	500,000		6.03	517,468	517,468
ANZ NATIONAL	18-Apr-08	18-Apr-13	9.66	500,000	8.40	535,922	500,000	24,150	8.17	525,021	549,171
BNZ	27-May-08	27-May-13	8.56	500,000	5.16	556,314	500,000	21,400	5.15	542,103	563,503
ASB	16-Jul-08	16-Jul-13	8.52	500,000	5.16	551,921	500,000		5.25	557,885	568,473
MERRILL LYNCH	4-Sep-05	4-Sep-13	7.16	250,000	6.37	256,469	250,000		6.45	260,099	260,099
DEUTSCHE	16-Jun-04	16-Jun-14	7.14	250,000	4.05	233,685	250,000	2,552	4.08	232,700	235,252
ROTORUA DC	25-Sep-09	25-Sep-14	6.49	500,000	5.95	509,899	500,000		6.09	515,222	515,222
BNZ	27-May-08	27-May-15	8.67	500,000	5.77	573,266	500,000	21,675	6.17	551,610	573,285
MANUKAU CC	27-Sep-10	27-Sep-17	6.52	250,000	6.31	253,064	250,000		6.43	255,460	255,460
MANUKAU CC	27-Sep-10	27-Sep-17	6.52				250,000		6.43	255,460	255,460
				\$5,500,000		\$5,817,642	\$6,000,000	\$121,027		\$6,284,200	\$6,415,815
Value 30/09/2010						\$5,817,642	Value 31/12/2010				6,284,200
							Coupons				121,027
							Net purchases/sales/maturities				-513,591
											5,891,636
							Effective change in cash				\$73,994
							% change				1.27%
							Duration-Years				2.37

Mackenzie vs Benchmark - Quarterly



Mackenzie vs Benchmark - Cumulative



MACKENZIE DISTRICT COUNCIL

REPORT TO: FINANCE COMMITTEE

SUBJECT: ESTABLISHMENT OF AUDIT & RISK SUB-COMMITTEE

MEETING DATE: 1 FEBRUARY 2011

REF: PAD 4/11

FROM: MANAGER – FINANCE AND ADMINISTRATION

ENDORSED BY: CHIEF EXECUTIVE OFFICER


PURPOSE OF REPORT:

The attached report recommends an Audit & Risk Subcommittee be established.

STAFF RECOMMENDATIONS:

1. That the report be received.
2. That Council establish an Audit & Risk Subcommittee.
3. That Council adopts the draft terms of reference attached.

PAUL MORRIS
MANAGER – FINANCE & ADMINISTRATION



GLEN INNES
CHIEF EXECUTIVE OFFICER

ATTACHMENTS:

Draft Terms of reference Audit & Risk Subcommittee.

Audit NZ Good Practice Guide: Audit Committees in the Public Sector.

BACKGROUND:

It has been suggested that an Audit & Risk Subcommittee be formed.

I believe this should extend to cover not only audit but Corporate Risk as well.

Attached is a proposed draft terms of reference, to establish such a body. The basis of those Terms of Reference, was taken from those used by Wellington City Council.

DECISION REQUIRED:

The decision is considered to be routine.

Audit & Risk Management Subcommittee

Voting Membership

The Audit and Risk Management Subcommittee will have three Councillors.

Quorum

2

Chair

The Chair will be elected by Council.

Frequency of Meetings

The Audit and Risk Management Subcommittee will meet on a quarterly basis or as required.

Parent Body

The Subcommittee reports to the Finance Committee.

Objectives of the Subcommittee

The objectives of the Audit and Risk Management Subcommittee are to assist the Council to discharge its responsibilities for:

- a) The robustness of the internal control framework and financial management practices;
- b) The integrity and appropriateness of internal and external reporting and accountability arrangements;
- c) The robustness of risk management systems, processes and practices;
- d) The independence and adequacy of external audit functions;
- e) Compliance with applicable laws, regulations, standard and best practice guidelines; and
- f) The establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.

In fulfilling their role on the Audit and Risk Management Subcommittee, members shall be impartial and independent at all times.

Terms of Reference

The Subcommittee will have responsibility and authority to:

- 1 *Internal Control Framework*
 - 1.1 review whether management's approach to maintaining an effective internal control framework is sound and effective;
 - 1.2 review whether management has taken steps to embed a culture that is committed to probity and ethical behaviour;
 - 1.3 review whether there are appropriate systems, processes and controls in place prevent, detect and effectively investigate fraud;
- 2 *Internal reporting*
 - 2.1 consider the processes for ensuring the completeness and quality of financial and operational information being provided to the Council;
 - 2.2 seek advice periodically from external auditors regarding the

completeness and quality of financial and operational information that is provided to the Council;

3 *External Reporting and Accountability*

- 3.1 agree the appropriateness of the Council's existing accounting policies and principles and any proposed change;
- 3.2 enquire of external auditors for any information that affects the quality and clarity of the Council's financial statements and statements of service performance, and assess whether appropriate action has been taken by management in response to the above;
- 3.3 satisfy itself that the financial statements and statements of service performance are supported by appropriate management signoff on the statements and on the adequacy of the systems of internal control (ie letters of representation), and recommend signing of the financial statements by the Chief Executive/Mayor and adoption of the Annual report.

4 *Risk Management*

- 4.1 review whether management has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of the Council's significant risks;
- 4.2 consider whether appropriate action is being taken by Management to mitigate Council's significant risks.

5 *External Audit*

- 5.1 at the start of each audit, confirm the terms of engagement, including the nature and scope of the audit, timetable and fees, with the external auditor;
- 5.2 receive the external audit report(s) and review action to be taken by management on significant issues and audit recommendations raised within;
- 5.3 conduct a members only session (ie without any management present) with external audit to discuss any matters that the auditors wish to bring to the Subcommittee's attention and/or any issues of independence.

6 *Compliance with legislation, Standards and Best Practice Guidelines*

- 6.1 review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines as applicable.

Delegated Authority

The Audit and Risk Management Subcommittee will have delegated authority to carry out activities within its terms of reference.



Good practice guide

Audit committees in the public sector

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Audit committees in the public sector

This is a good practice guide
published under section 21 of the
Public Audit Act 2001.

March 2008

ISBN 978-0-478-18196-8

Foreword

Audit committees have a valuable contribution to make in improving the governance, and so the performance and accountability, of public entities. They can play an important role in examining an organisation's policies, processes, systems, and controls. An effective audit committee shows that an organisation is committed to a culture of openness and continuous improvement.

An audit committee does not displace or change proper accountability arrangements. Accountability for good governance rests with the public entity's governing body or, in a government department, the chief executive.

In public entities with a governing body (for example, State-owned enterprises, Crown entities, and local authorities), an audit committee helps the governing body to carry out its governance duties. In government departments, an audit committee provides the chief executive with independent advice on strategic, performance, assurance, and/or compliance matters.

Effective audit committees can provide objective advice and insights into the public entity's strategic and organisational risk management framework. In doing so, they can identify potential improvements to governance, risk management, and control practices.

I expect all public entities to consider setting up an audit committee in line with the good practices identified in this publication. If a public entity decides not to form an audit committee, then I expect appropriate systems and processes to be in place to support the governing body or the chief executive to carry out their accountability and governance responsibilities.

I thank the chief executives, audit committee chairpersons, and internal audit managers from government departments, local authorities, Crown entities, tertiary institutions, district health boards, and State-owned enterprises who shared their experiences of audit committees with us. I would also like to thank the Australian National Audit Office for allowing us to use extracts from their publication *Better Practice: Audit Committees in the Public Sector*, and Deloitte for their help in preparing this guide.

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke, identifying K B Brady.

K B Brady
Controller and Auditor-General

26 March 2008

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Part 1

Introduction

- 1.1 After some well-publicised international accounting and auditing failures in 2001 and 2002, there has been an increasing focus on the role of audit committees in the public and private sectors. The role of audit committees has also expanded well beyond that of examining the financial reporting compliance and controls of their entities. The Sarbanes-Oxley Act 2002¹ in the United States and the strengthening of corporate governance requirements and expectations in the public and private sectors in many overseas jurisdictions highlighted the need for more audit committees, and for those audit committees to be more effective.
- 1.2 Overseas regulatory bodies are intervening more. They are setting clear standards and expectations for governance and assurance models in the public sector, particularly in Canada and Australia. Although New Zealand might not legislate for mandatory audit committees, Parliament expects the public sector to adopt governance principles that are consistent with good practice.
- 1.3 We have produced this good practice guide to help New Zealand public entities to set up audit committees and sound audit committee practices, to contribute to the improved governance and performance of public entities.

How to use this guide

- 1.4 This guide sets out the principles and good practices needed to set up and effectively operate an audit committee in the public sector. It also includes examples of charters and checklists, and a list of other useful resources, to help public entities operate effective audit committees.
- 1.5 However, this guide is not intended to be a “how to” manual, because public entities need to determine the most appropriate form of governance arrangements for their specific circumstances.
- 1.6 A public entity may decide not to form an audit committee. We acknowledge that, for some public entities, their size, their complexity, and the composition of their Board is such that there may not be a justification for an audit committee. These public entities need to be able to demonstrate to stakeholders that they have appropriate systems and processes in place to support the governing body (the board or council) or chief executive (of a government department) to carry out their accountability and governance responsibilities. Appendix 3 sets out the matters such systems and processes would need to address.
- 1.7 To prepare this guide, we reviewed a wide range of international literature about audit committees. To gain the perspectives of those working in New Zealand’s

¹ The Sarbanes-Oxley Act 2002, also known as the Public Company Accounting Reform and Investor Protection Act 2002, is a United States federal law enacted after several major corporate and accounting scandals including those involving Enron, Tyco International, Peregrine Systems, and WorldCom.

public entities, we interviewed chief executives and audit committee chairpersons from government departments, Crown entities, tertiary institutions, district health boards, local authorities, and State-owned enterprises. We also sought the views of internal auditors² from a cross-section of these public entities.

- 1.8 Throughout this guide we refer to the “audit committee”. This term includes committees that perform audit committee functions but that use a slightly different name (for example, finance committee, audit and risk committee, or risk and assurance committee).
- 1.9 We also refer to the governing body and chairperson. These terms are interchangeable with sector-specific equivalents, such as the council or board and mayor or chancellor.
- 1.10 This guide is not sector-specific. In our view, the principles and practices we outline apply to the public sector as a whole.

2 The term “internal auditor” means the individual or organisation that is responsible for providing internal assurance services to the organisation. We acknowledge that not all public entities have an internal audit function.

Part 2

Public sector context, and benefits of audit committees

7

- 2.1 An audit committee is a committee of the public entity. It is simply a group of advisers set up to give advice to the highest level of governance. Therefore, for example, the advice is given:
 - in a Crown entity, to the board;
 - in a local authority, to the council; and
 - in a government department, to the chief executive.
- 2.2 In public entities where the governing body is separate from management, the audit committee is usually a subcommittee of the governing body.
- 2.3 In a government department, although there are independent oversight mechanisms such as select committees, there is no governing body for the chief executive to report to. The chief executive can form an audit committee by inviting people with the necessary skills and experience from outside the government department to be on the audit committee.

The legislative context

- 2.4 In New Zealand, there are no specific regulatory or legislative requirements for setting up audit committees in the public sector. However, there are a number of explicit and implicit expectations of good governance that require or strongly suggest that public entities should set up and operate an effective audit committee.
- 2.5 For example, significant pieces of public sector legislation¹ refer to a “system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting” (for example, section 155 of the Crown Entities Act 2004). The legislation does not define “internal control”, but there are several international best practice models² that include audit committees as a crucial component of the internal control environment.
- 2.6 The Treasury set out explicit internal control expectations for government departments in its 2001 document *Financial Management – Departmental Internal Control Evaluation*. The document sets out the broad actions the Treasury expects departments to take to provide the chief executive with enough confidence to sign the statement of responsibility. Section 21 on internal assurance mechanisms sets out the control criteria designed to provide assurance about the reliability of internal assurance mechanisms, individually and collectively. It covers criteria for the internal control environment, internal control

1 The Public Finance Act 1989, Crown Entities Act 2004, and Local Government Act 2002.

2 One example is the Committee of Sponsoring Organizations of the Treadway Commission (or COSO, a voluntary private sector organisation set up to improve the quality of financial reporting – see www.coso.org).

monitoring, risk management, internal audits, audit committees, and quality management.

- 2.7 There are other best practice publications, including the Institute of Internal Auditors' position statement *The Audit Committee in the Public Sector*, encouraging the effective use of audit committees. For companies, the Institute of Directors' corporate governance material³ and the Securities Commission of New Zealand's corporate governance principles⁴ set out relevant expectations for audit committees.

Benefits of audit committees

- 2.8 Depending on its constitution, an audit committee's mandate varies between focusing primarily on providing assurance on financial and compliance issues and having more of an advisory role oriented at performance improvement and assurance as well as financial and compliance issues.
- 2.9 Audit committees in the more commercial public entities tend to focus primarily on financial and compliance matters, because their governing bodies more often deal with strategic and performance matters.
- 2.10 Audit committees operating in non-commercial public entities (for example, in government departments) tend to act in more of an advisory and improver role for the governing body or chief executive, with more of a focus on performance improvement, financial, and compliance matters.

Assurance benefits

- 2.11 There are four main assurance benefits from operating an audit committee:
- increased scrutiny;
 - efficient use of resources;
 - increased focus on internal assurance; and
 - increased focus on accountability.

Increased scrutiny

- 2.12 Audit committees increase the scrutiny of certain aspects of a public entity's governance, risk management, assurance, and financial management practices. This additional scrutiny provides the governing body or departmental chief executive with assurance that these areas have been independently reviewed.
- 2.13 The more commercial public entities with complex financial transactions that we spoke to when preparing this guide saw a clear benefit in having an audit

³ See www.iod.com/corporategovernance.

⁴ Securities Commission of New Zealand (2004), *Corporate Governance in New Zealand – Principles and Guidelines*, Wellington.

committee with appropriately qualified and experienced members focused on financial and reporting matters. They saw the additional time and attention that the audit committee could give to these matters as enabling them to efficiently make better decisions.

- 2.14 A number of chief executives that we spoke to commented on the “peace of mind” they derive from knowing that certain aspects of the organisation’s activities (in particular, the risk management and control frameworks, and external reporting matters) have been subject to thorough scrutiny:

The main benefit of the audit committee to me is that it gives me assurance that financial issues, risks and compliance matters have been properly scrutinised.

Chief executive of a Crown entity

Having this additional layer of scrutiny [of compliance matters] provides me with comfort that the basics have been covered.

Chief executive of a State-owned enterprise

Efficient use of resources

- 2.15 Audit committees can help public entities use resources efficiently. People that we spoke to commented that there can be a number of efficiencies at both the governing body and management levels from the individuals on the audit committee applying their specific expertise to the subject matter:

Having an audit committee enables board members to use their time more effectively, with members contributing in areas specific to their expertise. The increased level of scrutiny allows for more efficient and better quality decision-making.

Chief executive of a State-owned enterprise

Using independent members with financial skills on the audit committee provides assurance to the Council that financial compliance issues have been taken care of. As a consequence management’s time is used more effectively as matters relating to complex financial areas are reviewed between management and the audit committee and are rarely relitigated at full Council level.

Chief executive of a local authority

Increased focus on internal assurance

- 2.16 An effective audit committee often strengthens the existing internal audit function. Organisations we spoke to had found that the audit committee enforced the disciplines of having risk-based strategic audit plans and regularly reporting audit results and progress against the plans.

- 2.17 Audit committees had also been influential in increasing auditing resources where required and helping to ensure that internal and external auditing resources were put to best use. During our interviews for this guide, public sector managers and several internal auditors commented that the existence of an effective audit committee had forced more discipline into developing annual internal audit plans and reporting progress against those plans.

Increased focus on accountability

- 2.18 Audit committees can improve accountability mechanisms throughout the organisation. They require the management team and internal auditor to report on aspects of organisational activities and to be prepared to provide the rationale for their actions in an open and transparent environment. During our interviews for this guide, public sector managers commented that having an audit committee provided discipline and structure to management reporting, which helped to reinforce accountabilities.

Advisory benefits

- 2.19 There are two main advisory benefits from operating an effective audit committee. They are:
- a fresh perspective; and
 - a range of experience and of expertise.

A fresh perspective

- 2.20 An audit committee can provide a fresh perspective at an organisation-wide level, drawing attention to possible threats, opportunities, and emerging issues that the organisation might otherwise miss.

Range of experience and expertise

- 2.21 Audit committee members provide the public entity with a helpful range of experience and expertise. For example, chief executives might not have wide governance, legal, assurance, or financial expertise. They would have staff with this expertise reporting to them. However, an independent audit committee is in a stronger position to provide free and frank advice, and to challenge practices and processes, than employees are. This was reinforced by comments made during our interviews:

Issues are really debated and management views tested.

[...]

Independent audit committees can add huge value to CEOs in the public sector – any kind of external advice is a benefit, and they really add value in the identification of emerging risks.

[...]

The committee keeps you on your toes, which is really important. It will make you feel defensive sometimes but you need to “get over it” and be prepared to justify the decisions you make. It is important to be transparent.

Chief executive of a government department

Part 3

Good practice principles

- 3.1 There are four main principles that support the effective operation of an audit committee:
- **independence** – most of the members of an audit committee need to be independent of the management team to provide objective and impartial advice;
 - **competence** – audit committee members need to have relevant experience and expertise to bring valuable insights and perspectives to the areas of audit committee interest;
 - **clarity of purpose** – an audit committee needs to be clear about its mandate, purpose, and role in the organisation and within the governance structure as a whole; and
 - **open and effective relationships** – the audit committee needs to encourage open and transparent communication and effective ways of working with stakeholders.

Independence

Good practice

The governing body or departmental chief executive should appoint an audit committee in which most of the members are independent of the management team.

- 3.2 The effective functioning of an audit committee depends on the independence and competence of the audit committee's members. The more independent and competent an audit committee is, the better it is able to add value to the governance of the public entity.
- 3.3 To achieve these benefits, most of the audit committee members for government departments should be external appointments.
- 3.4 We acknowledge that many government departments include internal managers as audit committee members. This can provide the independent members with further insight into the workings of the department. However, the potential disadvantages are:
- reduced objectivity in the audit committee as a whole;
 - the member feeling unable to comment freely on areas managed by their colleagues; and
 - other members of management who are not on the audit committee feeling disenfranchised.

- 3.5 Each government department should consider the merits or otherwise of inviting managers to attend the audit committee meetings rather than having management representation on the audit committee.

Good practice

The chairperson of the audit committee should be someone other than the chairperson of the governing body or the chief executive.

- 3.6 Separating the role of the chairperson of the audit committee from the chairperson of the governing body or chief executive underpins the independence of the audit committee. It promotes free and frank debate during audit committee meetings.
- 3.7 An independent chairperson (that is, someone other than the chairperson of the governing body or the chief executive) can perform their role unencumbered by any management responsibilities and perspectives, and the governing body or chief executive can receive independent advice and assurance.
- 3.8 Although the audit committee's role in a government department is that of adviser to the chief executive, our interviews identified that the government departments that perceived their audit committees to be more effective usually had an audit committee with an independent chairperson.
- 3.9 In some public entities, the chairperson of the governing body or chief executive of the government department is a member of the audit committee. In others, they attend by invitation. The main consideration for the organisation when determining the membership of the audit committee is to not impair the audit committee's ability to provide free and frank advice. We have no firm view on whether the chairperson of the governing body should be a member of the audit committee. However, in our view, the chief executive of a government department should not be a member, in either a full or "ex officio" capacity.
- 3.10 It is normal practice for senior members of staff, including the chief executive, to attend audit committee meetings. In our view, the audit committee should have the opportunity to have "committee-only" time when senior staff members are not present, depending on the nature of the issues being discussed (see paragraph 3.25).
- 3.11 In addition to attending the audit committee, the chief executive is likely to benefit from a regular briefing by the chairperson of the audit committee.

Competence

Good practice

People appointed as audit committee members should have skills and experience adequate for the role of the committee.

- 3.12 Collectively, people appointed to serve on audit committees need to have:
- financial expertise;
 - knowledge of governance, assurance, and risk management best practice;
 - a good knowledge of the sector or industry in which the public entity operates; and
 - other attributes as deemed appropriate (for example, legal or information technology experience).
- 3.13 They should also:
- be independently minded;
 - have business acumen; and
 - be prepared to have candid discussions at all levels within the organisation regarding the activities and areas of responsibility of the audit committee.
- 3.14 The chairperson is the most important appointee. The chairperson needs to have expertise and experience in governance and to bring personal qualities and independence to the role that will openly and effectively involve all those the audit committee needs to work with.
- 3.15 The governing body or departmental chief executive should carefully consider the skills required for the audit committee when setting up the committee and appointing or reappointing members to the committee (see paragraphs 4.8-4.10).
- 3.16 Because of the appointment or election process, the members of a public entity's governing body may not have all the skills necessary for the audit committee to function effectively. If necessary, additional skills should be obtained by appointing an independent member (or members) to the audit committee.

Clarity of purpose

Good practice

The audit committee needs to be clear about its mandate, purpose, and role in the organisation and within the governance structure as a whole.

- 3.17 An audit committee should not displace or change the accountability arrangements within a public entity. The audit committee's constitution should enhance the existing governance framework, risk management practices, and control environment. The audit committee should provide an independent and expert view of elements of governance in an organisation.
- 3.18 The audit committee should also ensure that it retains a focus on governance issues and does not stray into making management decisions.
-

Good practice

The roles and responsibilities of the audit committee should be clearly defined in the context of the overall governance framework and be documented.

- 3.19 The scope of the audit committee's role and responsibilities should be determined within the context of the public entity's overall governance and accountability arrangements (see paragraph 4.7).
- 3.20 The governing body or departmental chief executive should determine the role of the audit committee. In determining the role of the audit committee, a public entity should consider:
- the organisation's mission and objectives;
 - the existence and respective roles and responsibilities of other committees within the organisation;
 - the size, complexity, and maturity of the organisation; and
 - whether the audit committee should have an assurance focus or more of an advisory focus.
- 3.21 Many organisations have separately constituted risk or finance committees. In these public entities, the roles, responsibilities, and accountabilities of all governance arrangements should be clearly set out so that there is no duplication or gap in governance.

Good practice

The activities of the audit committee should be linked to risk management disciplines.

- 3.22 As discussed in more detail in Part 4, regardless of other committees, the activities of the audit committee should be linked to risk management disciplines. The audit committee should oversee the main risks facing an organisation and the effectiveness of the risk management practices in place. If audit committees are isolated from the public entity's risk management framework:
- the audit committee will not focus on the key performance issues or risks faced by the public entity;
 - auditing and assurance services may not be effective; and
 - valuable opportunities for improved performance may be lost.
- 3.23 If members of the audit committee are also members of the governing body, they already have access to risk and strategy information as part of their wider role as board members or councillors. Accordingly, there should be a reduced risk of audit committee activities not aligning with the risk management framework.
- 3.24 The risk of misalignment increases for audit committees within government departments if independent members do not have a broad understanding of the department's strategic and operational risk management framework. Therefore, it is important that these members have appropriately regular briefings on these matters.

Open and effective relationships

Good practice

The chairperson of the audit committee should ensure that the audit committee has open and effective relationships with other governance committees, the chief executive, senior management, and internal and external auditors.

- 3.25 To be effective, an audit committee needs to operate in an environment of co-operation and trust. This is usually achieved when the audit committee chairperson promotes open and proactive dialogue with management and other governance committees. During the preparation of this guide, interviewees described various practices that are likely to have a positive effect on the performance of an audit committee. Based on those interviews and the international literature about audit committees we reviewed, we consider good practice to be:

- the audit committee chairperson being responsible for setting and approving the agenda, which would have been prepared with senior staff;
- the audit committee chairperson and the head of internal audit having regularly scheduled meetings, outside audit committee meetings;
- the chief executive and audit committee chairperson meeting outside audit committee meetings;
- internal and external auditors being able to attend audit committee meetings, without any members of the management team being present;
- “committee-only” time, which enables audit committee members to discuss issues and questions without the chief executive or staff being present; and
- the audit committee ensuring that requests it makes of management are reasonable and cost-effective to implement.

3.26 These steps help to foster a productive and effective working environment for management and the audit committee. Both are likely to get the best value from the time and resources invested in the audit committee.

Part 4

Setting up the audit committee

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Deciding to form an audit committee

- 4.1 Having a formally constituted, empowered, and independent audit committee demonstrates an organisation's commitment to good governance, risk management, and internal control practices.
- 4.2 People appointed to an audit committee do not, by virtue of the appointment, become members of the governing body. As a group of advisers working for a public entity, they are subject to the normal public sector disciplines. For example, where applicable to the public entity on whose audit committee they serve, they are subject to the Local Government Official Information and Meetings Act 1987 and the *Cabinet Office Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown* (CFF).¹
- 4.3 A public entity may determine that it is too small to set up an audit committee. In our view, these public entities need to be able to demonstrate to stakeholders that they have other appropriate systems and processes in place to support the governing body or departmental chief executive to discharge their governance and accountability responsibilities, particularly for overseeing risk management and the control environment.

Membership

Independence

- 4.4 Most of the members of the audit committee should be independent of management.
- 4.5 To achieve the benefits associated with audit committee independence, most of the audit committee members for government departments should be external appointments.

Determine the skills and experience required

- 4.6 When selecting members of the audit committee, a public entity should refer to the audit committee's mandate, as set out in the audit committee's charter (see paragraphs 4.38-4.40), to determine the skills and experience required.
- 4.7 If a public entity is seeking members for a new audit committee, a draft charter should be prepared setting out the expected role and responsibilities of the audit committee. The public entity could seek independent advice at this stage to help it consider how the audit committee could best fit into the overall governance

¹ See paragraphs 44-46 of the CFF, and paragraph 11 of Annex 4 Cabinet Office Circular CO (06) 08, latest edition November 2006.

framework. The audit committee can then consider the draft charter once members are appointed, and the charter can be amended if necessary.

- 4.8 The recommended combination of experience is:
- financial reporting (which should be emphasised in public entities with more complex financial reporting requirements);
 - broad governance experience;
 - familiarity with risk management disciplines (identification, evaluation, and management);
 - understanding of internal control and assurance frameworks;
 - a good understanding of the roles of internal and external audit; and
 - industry or sector expertise.
- 4.9 For an “advisory-oriented” audit committee, particular emphasis should be placed on strategy, performance management, and associated risk management disciplines.
- 4.10 In determining the composition of the audit committee, the combined experience, skills, and personal qualities of audit committee members is critical. Members should bring:
- the ability to act independently and objectively;
 - the ability to ask relevant and pertinent questions, and evaluate the answers;
 - the ability to work constructively with management to achieve improvements;
 - an appreciation of the public entity’s culture and values, and a determination to uphold these;
 - a proactive approach to advising the governing body and chief executive of matters that require further attention;
 - business acumen;
 - appropriate diligence, time, effort, and commitment; and
 - the ability to explain technical matters in their field to other members of the audit committee.

Size of the audit committee

- 4.11 An audit committee would normally have between three and five members. This ensures that a sufficient range of skills and experience is available while avoiding having an audit committee that is so large that it becomes ineffective.

Appointing members

- 4.12 The chairperson of the governing body or departmental chief executive should appoint the chairperson of the audit committee first.
- 4.13 The chairperson of the governing body or chief executive should then consult the audit committee chairperson before making further appointments to the audit committee.
- 4.14 Public entities with appointed or elected boards should specify in their audit committee charters whether audit committee members can be appointed from outside the governing body.

Remunerating members

- 4.15 Independent audit committee members not already remunerated by virtue of their being a member of the governing body should be paid at a level that reflects the time it takes to properly carry out their duties.
- 4.16 Allowance should be made for the particular skills and expertise the member will bring to the audit committee, and the time they need to prepare for and attend meetings.
- 4.17 The considerable additional responsibilities of the chairperson should also be recognised.
- 4.18 Where the governing body of a public entity is subject to the CFF, then those rules also apply to committees of the governing body.² The CFF applies to committees set up to advise a government department and therefore applies to audit committees. For public entities that are statutory entities under the Crown Entities Act 2004, section 47 and clause 15 of Schedule 5 of that Act make it clear that the CFF applies.³

² See paragraphs 10 and 12-14 and paragraphs 31-32 of Annex 2 of the Cabinet Office Fees Framework (available on the website of the Department of the Prime Minister and Cabinet, www.dpmc.govt.nz).

³ Several entities raised with us specific concerns about the remuneration levels set by the CFF. Many felt that remuneration levels within the CFF are too low for an entity to be able to secure the necessary skills and expertise for their audit committee to provide proper scrutiny, advice, and insight. We share this concern. In our view, even allowing for an element of public service, the fees paid under the CFF are low. There is a limited pool of people who are willing and able to provide services at the level required for the current rates. If government departments consider that the fees payable are too low to attract people with the required skills, they can seek advice from the State Services Commission (SSC). A Crown entity should pursue the question through its monitoring department. For departments, the CFF allows for exceptional fees (up to a prescribed limit and where clearly justified) for the chairperson and members of audit committees, subject to consultation with the responsible Minister and the Minister of State Services in each case. The SSC has advised us that such approval is rarely sought. Based on comments made in the interviews we conducted, some may see the approval process as unduly difficult, while others are unaware that it exists. If government departments consider that an exceptional fee above the CFF limit is justified, they should discuss the matter with the SSC. The SSC has advised us that the CFF is reviewed biennially and that our concerns will be noted during the next review (in June 2008).

- 4.19 Some public entities questioned whether external members of the audit committee could be regarded as providing consultancy services and therefore could be remunerated outside the CFF. In our view, this interpretation is inconsistent with the status of an audit committee as a committee of the public entity.

Contracts for independent members

- 4.20 When accepting an appointment to serve on an audit committee, independent members should ensure that they have a contract that clearly outlines the terms and conditions of their appointment. This should include any requirements about hours to be worked, professional indemnity insurance, signing of conflict of interest declarations, remuneration, and any specific requirements, so members fully understand their obligations.
- 4.21 Arrangements for managing conflicts of interest need to be in place – for example, to manage situations where audit committee members may be asked to provide other services to the public entity for which they serve as an audit committee member.⁴

Rotation of members

- 4.22 The charter should set out fixed terms of appointment (see paragraphs 4.38-4.40) to ensure that audit committee membership changes over time. Regularly changing the membership of an audit committee strengthens its independence and introduces fresh perspectives.
- 4.23 Generally, an individual's tenure on the audit committee should be two to three years, with an option for reappointment for a further term (particularly for independent members). Any reappointment of a member should be approved only after the member's performance as an audit committee member has been assessed (see paragraph 6.5).
- 4.24 Changes to the membership of the audit committee should be staggered to prevent a significant reduction in the knowledge and skills of the audit committee occurring at one time.

Induction

- 4.25 Public entities should have a formal process to induct new audit committee members to provide them with enough information to understand the role and responsibilities of the audit committee and the expectations of them as members.
- 4.26 The public entity should tailor the information it provides to new members to meet their individual needs. Examples of appropriate induction material include:

4 See our 2007 guidelines, *Managing conflicts of interest: Guidance for public entities*.

- an outline of the public entity's governance framework and how the audit committee operates within that framework;
 - a copy of the audit committee's charter, recent audit committee papers, and minutes (including details of outstanding issues);
 - copies of the public entity's enabling legislation (where applicable);
 - a copy of the public entity's most recent financial statements;
 - copies of the public entity's annual report, other accountability documents, code of conduct, and business and risk management plans;
 - a briefing (supported by written materials) from management and internal auditors on the risk, control, compliance, audit, and external accountability frameworks, as well as details of current issues on those topics;
 - a briefing on government policies or priorities that affect the public entity; and
 - a copy of the internal audit charter, annual work plan, and recent internal and external audit reports.
- 4.27 The extent of each member's induction will vary depending on whether they are an internal or external member, their role (if any) within the public entity, and their particular skills and experience. At the very least, all new members should meet and be briefed by the chief executive or chairperson of the board, and the chairperson of the audit committee. They should be introduced to the head of the internal audit team and the external auditor.
- 4.28 When an external member joins the audit committee, it may be appropriate for various managers within the public entity to provide more detailed information or presentations to help the new member gain the necessary understanding of the business. This could include site visits.

Role and responsibilities

Role of the audit committee

- 4.29 In determining the role and responsibilities of an audit committee, the governing body or departmental chief executive should consider such factors as the:
- organisation's mission and objectives;
 - nature and structure of the public entity's governance arrangements, including the roles and responsibilities of any other committees within the organisation;
 - size and complexity of the organisation; and
 - mix of assurance and advisory services that the governing body or chief executive is seeking.

- 4.30 It is important to determine whether the audit committee will have decision-making powers or be purely advisory. Audit committees are usually advisory in nature. However, in a Crown entity, local authority, or State-owned enterprise environment, the governing body may also delegate executive or decision-making powers to the audit committee, as long as any such delegations comply with legal requirements.

Responsibilities of the audit committee

- 4.31 The core responsibilities of an audit committee should include, at the very least, overseeing the effectiveness of:
- the risk management framework;
 - the internal control environment;
 - legislative and regulatory compliance;
 - internal audit and assurance;
 - external audit; and
 - financial reporting.
- 4.32 Other areas that could be included in the audit committee's mandate are:
- the effectiveness of governance arrangements;
 - all external accountability reporting, including non-financial performance and the clarity of links between non-financial performance measures and strategy; and
 - overseeing the management of significant projects.
- 4.33 Management should also keep the audit committee fully apprised of all independent sources of assurance.
- 4.34 For public entities with significant service performance reporting obligations, we would expect the audit committee to apply the same level of scrutiny to reported non-financial performance information as it does to reported financial information. This encompasses the related governance, risk management, and control frameworks for performance reporting and gathering performance information. Public entities should consider whether the audit committee should be responsible for overseeing this area. If not, then we would expect the public entity to have other suitable governance arrangements for reported performance information in place.
- 4.35 As many organisations have separately constituted risk or finance committees, the roles, responsibilities, and accountabilities of all governance arrangements should be clearly defined to ensure that there are no overlaps or gaps. However,

regardless of these other arrangements, the audit committee should oversee the main risks facing the public entity to ensure that its activities align with its risk profile.

- 4.36 When determining the extent of the audit committee's mandate, it is important to ensure that the audit committee is not overburdened. An effective audit committee is able to perform its core responsibilities well. It does not have such a broad range of responsibilities that it is unable to pay enough attention to those issues of greatest importance to the public entity.

Role and responsibilities of the chairperson

- 4.37 The chairperson plays a pivotal role in the effective functioning of any committee, with particular responsibilities to set the tone and direction of the committee's deliberations. The chairperson of the audit committee should have a good knowledge of the public entity's business, governance structures, risk management framework, financial reporting environment, and control environment. They should be responsible for:
- setting and approving the agenda of the audit committee meetings;
 - holding meetings with the chief executive, internal auditors, and external auditors; and
 - leading the discussion and encouraging the participation of other members.

Audit committee charter

- 4.38 A written charter should formally document the accountability, authority, duties, membership, role, and responsibilities of the audit committee. The charter should be approved by the governing body or chief executive, and reviewed and confirmed each year.
- 4.39 The charter is an important document that clearly sets out the audit committee's terms of reference as mandated by the governing body or chief executive. The annual review should seek input from the governing body or departmental chief executive, to ensure that the charter is consistent with the audit committee's responsibilities and meets the expectations of both the governing body or chief executive and the audit committee. If the audit committee recommends significant changes to the charter, then the governing body or chief executive should approve the revised audit committee charter.
- 4.40 At the very least, the charter should include the audit committee's:
- objective (its role or purpose, the governance framework/context within which it operates, and how it relates to other governance mechanisms/committees);

- authority (the power or authority it has to fulfil its objectives);
- composition and tenure of members (the size of the audit committee, the sort of members it has, how new members are appointed and reappointed, how long members remain on the audit committee, and how members (including the chairperson) are removed in the event of non-performance);
- responsibilities;
- administrative arrangements (meetings, attendance and quorums, decision-making and voting, secretariat, conflict of interest provisions, induction);
- performance assessment arrangements; and
- system and schedule for reviewing the charter.

Part 5

Openly and effectively involving stakeholders

- 5.1 According to the Treadway Commission:
- The mere existence of an audit committee is not enough. The audit committee must be vigilant, informed, diligent and probing in fulfilling its oversight responsibilities.*¹
- 5.2 To add value by strengthening governance processes, the audit committee needs to effectively involve its stakeholders. The stakeholders are:
- the governing body;
 - the chief executive;
 - other governance committees;
 - management;
 - internal auditors; and
 - external auditors.
- 5.3 The chairperson of the audit committee is responsible for ensuring that stakeholders are openly and effectively involved. However, all stakeholders share responsibility for ensuring that the audit committee operates effectively.
- 5.4 From time to time, there are also questions about the work of an audit committee and the extent to which its considerations are subject to public transparency provisions, such as the Official Information Act 1982 and the Local Government Official Information and Meetings Act 1987 (see paragraphs 5.46-5.53 for further discussion).
- 5.5 This section of the guide identifies good practice for the relationship between the audit committee and its stakeholders.

Relationship with the governing body or departmental chief executive

- 5.6 The governing body or departmental chief executive has an important role in determining the effectiveness of the audit committee by setting an appropriate “tone at the top” and providing demonstrable support for the work of the audit committee.
- 5.7 For public entities with an elected or appointed board, the audit committee usually has enough inherent authority to expect management to respond to its requests. However, in a government department, the audit committee needs the full support of the chief executive to ensure that it can effectively execute its work programme.

¹ National Commission on Fraudulent Financial Reporting (1987), *Report of the National Commission on Fraudulent Financial Reporting*, United States of America.

- 5.8 The relationship between the chief executive and the chairperson of the audit committee should be one of mutual respect for each other's skills and experience. The two should share a common understanding of the role of the audit committee and its ability to help the department improve its performance and compliance.
- 5.9 The audit committee chairperson and chief executive should meet regularly, outside normal audit committee meetings. This sharing of information on current issues and areas of potential concern should occur in a timely manner.
- 5.10 The audit committee should also seek a briefing at least annually on the strategic developments affecting the public entity, including emerging risks, significant projects or programmes, legislative changes, and major policy developments.
- 5.11 If the audit committee includes a member of the management, the chairperson and chief executive should not expect that person to be the conduit for communication between them. Nor should the audit committee necessarily look to that person to provide administrative support for the audit committee. Again, those arrangements should be agreed between the chairperson and the chief executive.

Reporting

- 5.12 The minutes of the audit committee would usually be presented at the meetings of the governing body, which may mean it is not necessary for the audit committee to separately report on its activities.
- 5.13 If the chief executive does not attend the audit committee meetings, we would normally expect the chairperson of the audit committee to discuss with the chief executive the audit committee's work, and any specific and significant insights, risks, issues, and recommendations.
- 5.14 It is good practice for the audit committee to provide the chief executive or governing body with an annual report of their work and recommendations, and of any outstanding issues and concerns.

Expectations

- 5.15 In summary, the audit committee should expect the governing body or chief executive to:
- keep it fully informed on strategic and risk issues facing the organisation; and
 - fully support the execution of its mandate.
- 5.16 The governing body or chief executive should expect:
- to be kept fully apprised of the activities of the audit committee;

- sound and well-informed debate on the areas within the audit committee's mandate; and
- to be informed promptly of any significant concerns the audit committee has in areas within its mandate.

Relationship with other governance committees

- 5.17 If a public entity has an audit committee and one or more other governance committees, such as a risk or fraud committee, it should have clear reporting protocols in place to ensure that there is a common understanding of the respective objectives and responsibilities of each committee. The audit committee and the other governance committees also need to be able to share current and relevant information, and operate in a co-operative and complementary manner.

Distinguishing between governance and management

- 5.18 It is important that audit committee members understand the difference between the governance function of the audit committee and the decision-making functions of management. The audit committee needs to always keep its purpose in mind and ensure that it focuses on areas of highest risk to the organisation. The most common complaints from management about the operations of audit committees involve audit committee requests that are perceived to add to the compliance burden without adding value.
- 5.19 The audit committee needs to demonstrate a positive culture of continuous improvement to help free and frank discussion with management on organisational risks and opportunities. If the audit committee has a punitive culture, management will become defensive and less likely to "tell it like it is".
- 5.20 The more informed management is about the activities of the audit committee, the more likely it is to see the benefits that accrue from the audit committee's interactions.

Expectations

- 5.21 The audit committee should expect management to:
- have a positive attitude to challenge and debate of management plans of action;
 - have a constructive approach to interacting with the audit committee;
 - be forthcoming in identifying potential areas of risk and improvement;
 - provide clear unambiguous reports;
 - be responsive to requests; and
 - inform the committee of any investigations, reviews, and/or fraud.

- 5.22 Management should expect the audit committee to:
- communicate about its activities (potentially by distributing minutes);
 - provide opportunities for managers to attend audit committee meetings when their area of responsibility is being discussed (for example, when relevant internal audit reports are being presented);
 - foster a culture of continuous improvement;
 - consider the compliance cost associated with audit committee requests;
 - maintain a focus on the main areas of risk and opportunity; and
 - maintain the distinction between governance roles and management roles.

Relationship with the internal audit or risk manager

- 5.23 The relationship between the audit committee and the internal auditor is central to enabling the audit committee to fulfil its mandate. The audit committee receives much of its information on the adequacy of the control environment and assurance over the public entity's management of risk from the internal auditor.
- 5.24 In turn, the independence and effectiveness of the internal auditor is greatly strengthened by the support of the audit committee.
- 5.25 To have an effective relationship between the audit committee and the internal auditor, there needs to be an unrestricted, frank, and confidential exchange of information between the two throughout the year.

Interaction

- 5.26 We would expect the chairperson of the audit committee and the internal auditor to meet regularly outside normal audit committee meetings. The internal auditor should be comfortable in requesting meetings with the chairperson of the audit committee whenever required.
- 5.27 There should also be time set aside at the audit committee meeting for a committee-only session with the internal auditor. This reinforces the independent role played by the internal auditor.

Approval of plan

- 5.28 One of the main functions of the audit committee is to consider the internal audit work programme and recommend that it be approved. The audit committee ensures that the proposed programme meets the needs of the public entity by considering whether the plan:
- is prioritised, showing a clear link to the public entity's risk management framework;

- incorporates the objectives of each of the proposed internal audit reviews;
- includes an estimate of the resources needed and the planned timetable;
- is flexible enough to accommodate extra work that may arise during the year; and
- identifies areas of risk not covered by the plan because of resource constraints.

5.29 During the year, the audit committee should review the internal auditor's progress in carrying out the approved work programme.

Internal audit reports

5.30 The audit committee should receive regular reports in an agreed format from the internal auditor on the results of their work. The reports should include management's response to internal audit recommendations. Responses from management should be clear and concise, and should:

- set out whether management agrees or disagrees with the finding and recommendation, and, if it disagrees, identify the reasons why; and
- identify the person or position responsible, and the time frame, for implementing the recommendation.

Consideration of resources

5.31 The audit committee should consider whether the internal auditor has the skills, or access to the skills, to carry out a programme of work that will meet the needs of the organisation. This consideration should include a periodic review of the model of internal audit used by the public entity. The factors that will influence the size and expertise requirements of an internal audit function include the:

- nature of the public entity's risk and control environment;
- size, scale, location, and diversity of the public entity's operations;
- complexity, nature, and scale of information technology systems; and
- reliance placed on the transparency of management controls as well as internal and external assurance.

Encouraging continuous improvement

5.32 The Institute of Internal Auditors' professional standards require the internal audit function to be subject to an independent quality assessment at least once every five years.² The audit committee should ensure that this assessment takes place and provide support for the internal auditor to implement any recommendations from the assessment. The audit committee should also ensure that enough resources are available to carry out these assessments.

² See <http://www.theiia.org/guidance/quality/>.

Reviewing performance of the internal auditor

- 5.33 The audit committee should have input into the annual performance assessment of the internal auditor. The internal auditor's performance assessment should communicate positive feedback from the audit committee and areas identified for improvement.
- 5.34 In addition, in order to safeguard the independence of the internal audit function, the audit committee should satisfy itself that any dismissal (or departure) of the internal auditor is based on proper and appropriate reasons.

Expectations

- 5.35 The audit committee should expect the internal auditor to:
- prepare an annual internal audit plan that is clearly aligned with the risk management framework and that includes testing significant mitigating controls;
 - provide the audit committee with the annual internal audit plan for review;
 - report on progress against the audit plan for the year;
 - report issues and communicate concerns freely and frankly;
 - allocate suitably skilled individuals to internal audit assignments; and
 - continually improve the internal audit function, which includes underpinning the internal auditor's quality improvement plans with independent quality reviews.
- 5.36 The internal auditor should expect the audit committee to:
- provide direct access to the chairperson to strengthen communication;
 - provide them with the opportunity to meet with the audit committee without management present;
 - clearly communicate the audit committee's expectations of the internal auditor;
 - provide support for adequate resources given the public entity's assurance requirements and risk profile; and
 - provide timely feedback on performance.

Relationship with the external auditor

- 5.37 To have an effective relationship between the audit committee and external auditor, there needs to be an unrestricted, frank, and respectful exchange of information.

Interaction

- 5.38 It is essential to have open and effective dialogue, particularly about sensitive issues and emerging risks to the organisation. The audit committee should meet with the external auditor two to three times during the audit period to formally discuss the audit plan, interim audit findings, and results of the final audit. The audit committee should also invite the external auditor to attend audit committee meetings at the external auditor's discretion.
- 5.39 The audit committee needs to fully understand the role and responsibilities of the external auditor in their capacity as an agent of the Auditor-General. Timely communication of significant issues between the audit committee and the auditor is therefore critical to the auditor discharging their responsibility to the Auditor-General.
- 5.40 We view good practice to be for the external auditor to have unrestricted access to the audit committee chairperson and the audit committee's agenda papers and minutes. This ensures that the external auditor is fully informed in a timely way of issues affecting the public entity that may have audit risk or audit timing implications. It also endorses the concept of independence and unlimited scope, which are fundamental to the external audit.

Audit planning

- 5.41 The external auditor should inform the audit committee of their planned audit approach and areas of focus before any fieldwork starts. They should also inform the audit committee of particular areas of focus arising from the Auditor-General's annual audit process and any planned performance audits or inquiry work to be conducted by the Auditor-General.
- 5.42 The audit committee should be made aware of any other services proposed to be carried out by the external auditor's firm and ensure that potential conflicts of interest are appropriately managed.³

Reporting

- 5.43 The audit committee should obtain a comprehensive briefing from the external auditor on the results of their audit. As part of this process, the audit committee should meet with the external auditor without management present to enable the audit committee to raise issues, ask questions, and seek feedback from the auditors.

³ The Auditor-General's audit service providers must apply the independence principles outlined in the Auditor-General's Statement AG – *Code of Ethics: Independence in Assurance Engagements*, and consult with the Office of the Auditor-General in circumstances where conflicts of interest may be perceived to arise.

Summary of expectations

- 5.44 The audit committee should expect the external auditor to:
- communicate the annual audit plan and areas of emphasis and risk;
 - communicate areas of focus identified by the Auditor-General for the annual audit;
 - communicate any planned performance audits to be conducted by the Auditor-General;
 - communicate any other services proposed to be carried out by the external auditor's firm;
 - bring to the attention of the audit committee any difficulties during the audit;
 - report any areas of apparently questionable accounting or performance reporting identified during the audit; and
 - report any deficiencies in the internal control framework identified during the audit.
- 5.45 The external auditor should expect the audit committee to:
- provide unfettered access to the audit committee chairperson and the audit committee's agenda papers;
 - meet with the external auditor two to three times during the year and invite the external auditor to attend all audit committee meetings at the external auditor's discretion;
 - provide access to the minutes of the audit committee;
 - promptly communicate issues and risks that may affect the audit;
 - communicate the audit committee's expectations of the external auditor;
 - promptly advise the external auditor of any fraud or fraud investigations the audit committee is aware of; and
 - provide an opportunity to meet without management and the internal auditor present at least twice a year.

Public accountability requirements

- 5.46 An audit committee by its nature often considers information that is sensitive. The effective operation of an audit committee requires a free and frank flow of information and advice about these sensitive issues. For example, internal audit reports can draw attention to defects in controls and procedures, and cases of suspected fraud. Defects and suspected fraud often relate to particular business units and individual employees.

- 5.47 Some people we spoke to expressed concern that public accountability requirements (such as the Official Information Act 1982 and the Local Government Official Information and Meetings Act 1989) could mean that those advising the audit committee (internal or external auditors or staff) may be reluctant to raise or thoroughly discuss issues. They may be concerned about treating individuals unfairly or negatively affecting the public's confidence in the public entity and its staff.
- 5.48 People raising this concern told us that this situation is not conducive to a climate of continuous improvement and can work against the principles of free and frank advice. As a result, there is a risk that the audit committee will not be able to function effectively because it may not receive all the information it should.
- 5.49 Audit committees need to receive full information to operate effectively, and it is also important that the Official Information Act and the Local Government Official Information and Meetings Act are complied with. Audit committees, if managed properly, should be able to discharge their functions without acting inconsistently with the intentions of these Acts. Information remains subject to the Acts whether presented to the audit committee or not.

Public attendance at audit committee meetings

- 5.50 Local government meetings are usually required to be open to the public, for reasons of democracy and public accountability. Under sections 2, 46, and 47 of the Local Government Official Information and Meetings Act, an audit committee is a committee of the council. Therefore, it is required to publicly notify its meetings and be open to the public. School boards of trustees and other public entities covered by the Local Government Official Information and Meetings Act are in the same position.
- 5.51 Section 48 of the Local Government Official Information and Meetings Act states that the public can be excluded from a meeting when particular items are discussed only where one of the specified grounds for exclusion exists (and after passing a resolution to exclude the public on that basis). Sections 6, 7, and 48 of the Local Government Official Information and Meetings Act set out the general grounds for exclusion.
- 5.52 From time to time, particular items for discussion may warrant excluding the public, but each such item will need to be considered carefully. This need for case-by-case consideration places an important duty on the chairperson of the audit committee to manage the meeting so that free and frank conversation can occur. The council should follow its normal procedures and criteria for assessing and deciding on public exclusion. The chief executive and other officers supporting the audit committee will be experienced in doing so.

Providing information to the public

- 5.53 Any public entity subject to the provisions of the Official Information Act or the Local Government Official Information and Meetings Act may need to disclose information about, or held by, its audit committee in response to a request for that information (unless any of the grounds for withholding the information apply). Each such request needs to be considered carefully, having regard to the intentions of the Acts and the specific reasons for which information may be withheld.

Part 6

The audit committee in operation

37

Continuous improvement

- 6.1 A structured and formal evaluation of an audit committee's performance can help to ensure that the audit committee delivers on its charter, and can help the audit committee continuously enhance its contribution to the public entity. The evaluation may be a self-assessment with input from key stakeholders, or involve facilitation or review by an external party. Self-assessment is generally considered to be an effective method of evaluation for governance committees.
- 6.2 An audit committee should complete a candid assessment, at least every two years, to evaluate its performance and delivery against its charter. The evaluation should seek input from the governing body or departmental chief executive, management, and the internal and external auditors. If an audit committee has been recently set up, it may wish to consider an evaluation after 12-18 months.
- 6.3 The results of the assessment should be provided to the governing body or chief executive, who should consider the findings and any recommendations. If required, the governing body or chief executive should ensure that appropriate action is taken to enhance the audit committee's performance.
- 6.4 A well designed evaluation process should identify any substantive issues about the independence of the audit committee and its relationship with management that may affect the ability of the audit committee to function well.

Assessing audit committee members' performance

- 6.5 We would expect the chairperson of the audit committee, when considering recommending that a member's tenure be extended or that a member be reappointed, to assess that member's performance. In this assessment, the chairperson could consider whether the member has:
 - a good understanding of, and commitment to, the audit committee's roles and responsibilities;
 - displayed the ability to act objectively and independently;
 - the ability to take difficult but constructive stands at meetings when necessary;
 - a good understanding of the public entity's business; and
 - displayed a willingness to devote the time needed to prepare for, and participate in, audit committee meetings.

Committee secretariat

- 6.6 The effectiveness of an audit committee partly depends on the members having enough time to consider the financial and other information placed before them.

The information will often be detailed and complex, and should be distributed at least a week before an audit committee meeting.

- 6.7 The committee secretariat needs to ensure that meetings are scheduled, minutes are taken, and supporting papers are circulated. Minutes should include not just the final decisions the audit committee makes but also the rationale supporting those decisions. The minutes should be approved by the chairperson and circulated promptly to other audit committee members, the governing body or chief executive, and observers as appropriate.
- 6.8 The committee secretariat is responsible for ensuring that agendas and supporting papers, approved by the chairperson of the audit committee, are distributed to audit committee members and observers (where appropriate) with enough time to allow all participants to read all papers.
- 6.9 The secretariat also has an important role in ensuring that structured communication channels exist between the governing body or chief executive and the audit committee, and that members of the governing body or chief executive receive reports that keep them adequately informed of the audit committee's activities. Recommendations to the governing body or chief executive should be supported by papers, such as the minutes containing the rationale for the recommendation.

Conducting meetings

Number and timing of meetings

- 6.10 Normally, an audit committee would meet at least three to four times a year, and one of those meetings would be scheduled to allow the audit committee to consider the public entity's financial statements. The number and duration of audit committee meetings will depend on the size and complexity of the audit committee's responsibilities. The audit committee should decide, with the governing body or departmental chief executive, the number of meetings needed for the year after considering:
- the roles and responsibilities of the audit committee;
 - the maturity of the audit committee and audit arrangements;
 - the level and/or volume of audit activity;
 - significant developments or emerging risks for the public entity – for example, restructuring, policy initiatives, or new programmes; and
 - the potential resource implications and management reporting burdens against the benefit to the audit committee and the public entity of more frequent meetings.

- 6.11 Each year, the audit committee should plan its meetings for the year, including the dates, location, and agenda items. When planning, the audit committee should ensure that it covers all the responsibilities outlined in its charter.
- 6.12 The audit committee's charter should require the chairperson of the audit committee to hold a meeting if asked to do so by another audit committee member or by the governing body or chief executive.

Attending meetings

- 6.13 The audit committee may ask management, and internal or external audit representatives, to attend audit committee meetings for particular agenda items. Internal and external auditors should also receive all audit committee agenda papers and be able to request attendance at meetings.
- 6.14 We would expect the audit committee to meet with the internal auditor without management present and to meet with the external auditor without management and the internal auditor present at least once a year.
- 6.15 As appropriate, members of the senior management team, including the chief executive, may be invited to attend audit committee meetings to participate in specific discussions or provide strategic briefings.
- 6.16 Audit committee members should be appointed for their particular skills and experience, so members should not send proxies if they are unable to attend. However, arrangements for a replacement may need to be made when management representatives on the audit committee are away for a long time or act in positions that would exclude them from membership.

Quorum

- 6.17 The quorum for an audit committee should be a majority of audit committee members.
- 6.18 Audit committees with independent members need to consider specifying how many of those members should be present. For example, a local authority may have three councillors (one of whom is the chairperson) and two independent members on the audit committee. In these circumstances, a quorum could be at least three members including at least one independent member.

Meeting agenda

- 6.19 The efficient running of each meeting can be helped by:
- ensuring that the meeting starts and finishes on time;
 - at the start of each meeting, members agreeing the priority and the time to be devoted to each agenda item; and

- before each meeting, each member being briefed by the secretariat on the major issues to be discussed.

- 6.20 Before the meeting, the audit committee chairperson should be responsible for setting and approving the agenda, which would have been prepared with senior staff.
- 6.21 Other components of good practice may involve setting time aside before each meeting for the audit committee members to discuss the papers and any issues they wish to discuss in more depth with management. This “committee-only” time also allows audit committee members to clarify any questions they have with other members before the management representatives join the meeting.

Minutes of audit committee meetings

- 6.22 Minutes of the audit committee meetings should be clear and concise, providing a summary of the outcomes and actions with clear responsibilities and deadlines attached. Draft minutes should be distributed promptly to the chairperson for checking, and circulated to audit committee members.
- 6.23 It is good practice for audit committee minutes to be circulated with the papers of the next governing body meeting and for the chairperson of the audit committee to provide an update to the governing body on the contents of the minutes.

Confidentiality and conflicts of interest

- 6.24 Audit committee members should ensure that they safeguard and treat as confidential all the information they receive.
- 6.25 Audit committee members should ensure that conflicts of interest are declared and managed.

Access to staff

- 6.26 The audit committee charter should provide the audit committee chairperson with the authority to invite public entity staff to attend meetings, and require the public entity to provide information that is relevant to the audit committee’s responsibilities, on the request of the audit committee or individual members. It is expected that the chief executive would be made aware of any such invitations by the audit committee.
- 6.27 To enhance the audit committee’s independence and its capacity to fully appreciate relevant issues, the audit committee charter should authorise the audit committee to seek independent professional advice, as and when required.

Appendix 1

Other sources of information about audit committees and good practice

Australian National Audit Office (2005), *Public Sector Audit Committees*, Canberra.

Treasury Board of Canada Secretariat (2001), *Directive on Small Departments and Agencies Audit Committee* (see <http://www.tbs-sct.gc.ca>).

Deloitte & Touche (2003), *Public Sector Audit Committees Resource Guide*, New York.

Deloitte Development LLC (2006), "Planning Tool: Audit Committee – Calendar of Activities", *Audit Committee Resource Guide*, New York.

Deloitte Development LLC (2006), "Sample Audit Committee Self Charter", *Audit Committee Resource Guide*, New York.

Deloitte Development LLC (2006), "Audit Committee – Self-Assessment Tool", *Audit Committee Resource Guide*, New York.

Deloitte Development LLC (2006), *Audit Committee Performance Evaluation*, New York.

Deloitte & Touche LLP (2004), *Audit Committee Performance Evaluation Self-assessment Checklist*, United Kingdom.

Fraser, J and Lindsay, H (2004), *20 Questions Directors Should Ask about Internal Audit*, The Canadian Institute of Chartered Accountants, Toronto.

Institute of Internal Auditors (2006), *The Audit Committee: Purpose, Process, Professionalism*, United States of America.

Institute of Internal Auditors (2005), *A Survey of Audit Committees in the New Zealand Core Public Sector*, Wellington.

National Audit Office (2007), *Helping your Audit Committee to add value*, and *The Audit Committee self-assessment checklist* (see <http://www.nao.org.uk>).

The Treasury (2001), *Departmental Internal Control Evaluation*, Wellington.

Appendix 2

Example charters

We encourage public entities to adapt these examples to ensure that they are suitable and appropriate for their particular circumstances.

Example 1: Based on the Australian National Audit Office's model charter for audit committees

Objective

The objective of the Audit Committee (the Committee) is to provide independent assurance and assistance to the [governing body/departmental chief executive] on [the entity's] risk, control and compliance framework, and its external accountability responsibilities.

Authority

The [governing body/departmental chief executive] authorises the Committee, within the scope of its role and responsibilities, to:

- obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information);
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);
- request the attendance of any employee, including the Chief Executive, at Committee meetings; and
- obtain external legal or other professional advice, as considered necessary to meet its responsibilities, at [the entity's] expense.

Composition and tenure

The Committee will consist of at least three and not more than five members appointed by the [governing body/departmental chief executive]. The majority of the Committee will comprise independent members.

The [governing body/departmental chief executive] will appoint the chairperson of the Committee.

Members will be appointed for an initial period not exceeding three years after which they will be eligible for extension or re-appointment, after a formal review of their performance.

The Chief Executive, the Chief Finance Officer, and the Head of Internal Audit will not be members of the Committee, but may attend meetings as observers as determined by the Chairperson.

The members, taken collectively, will have a broad range of skills and experience relevant to the operations of [the entity]. At least one member of the Committee should have accounting or related financial management experience with an understanding of accounting and auditing standards in a public sector environment.

Role and responsibilities

The Committee has no executive powers.

The Committee is directly responsible and accountable to the [governing body/departmental chief executive] for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of [the entity] rests with the Chief Executive.

The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the [governing body/departmental chief executive] from time to time.

[Entities may need to refer to the terms of reference of other related committees to provide a full picture of the governance framework.]

Risk management

The Committee's responsibilities are to:

- review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of [the entity's] financial and business risks, including fraud;
- review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings;
- review the effect of [the entity's] risk management framework on its control environment and insurance arrangements;
- review whether a sound and effective approach has been followed in establishing [the entity's] business continuity planning arrangements, including whether disaster recovery plans have been tested periodically; and
- review [the entity's] fraud control plan and satisfy itself that [the entity] has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

Control framework

The Committee's responsibilities are to:

- review whether management's approach to maintaining an effective internal control framework, including over external parties such as contractors and advisers, is sound and effective;
- review whether management has in place relevant policies and procedures, and that these are periodically reviewed and updated;
- determine whether the appropriate processes are in place to assess, at least once a year, whether policies and procedures are complied with;
- review whether appropriate policies and procedures are in place for the management and exercise of delegations;
- consider how management identifies any required changes to the design or implementation of internal controls; and
- review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

[Entities may wish to include consideration of controls over service performance information.]

External accountability

The Committee's responsibilities are to:

- review the financial statements and provide advice to the [governing body/ departmental chief executive] (including whether appropriate action has been taken in response to audit recommendations and adjustments), and recommend their signing by the [governing body/ departmental chief executive];
- satisfy itself that the financial statements are supported by appropriate management sign-off on the statements and on the adequacy of the systems of internal controls;
- review the processes in place designed to ensure that financial information included in [the entity's] annual report is consistent with the signed financial statements;
- satisfy itself that [the entity] has appropriate mechanisms in place to review and implement, where appropriate, relevant external audit reports and recommendations; and
- satisfy itself that [the entity] has a performance management framework that is linked to organisational objectives and outcomes.

[Entities may wish to include responsibilities regarding other accountability documents and reporting of service performance information.]

Legislative compliance

The Committee's responsibilities are to:

- determine whether management has appropriately considered legal and compliance risks as part of [the entity's] risk assessment and management arrangements; and
- review the effectiveness of the system for monitoring [the entity's] compliance with relevant laws, regulations, and associated government policies.

Internal audit

The Committee's responsibilities are to:

- act as a forum for communication between the Chief Executive, senior management, and internal and external auditors;
- review the internal audit coverage and annual work plan, ensure that the plan is based on [the entity's] risk management plan, and recommend approval of the plan by the [governing body/departmental chief executive];
- advise the [governing body/departmental chief executive] on the adequacy of resources to carry out the internal audit, including completion of the approved internal audit plan;
- oversee the co-ordination of audit programmes conducted by the internal and external auditors and other review functions;
- review all audit reports and provide advice to the [governing body/departmental chief executive] on significant issues identified in audit reports and action taken on issues raised, including identification and dissemination of good practice;
- monitor management's implementation of the internal auditor's recommendations;
- review the internal audit charter to ensure that appropriate organisational structures, authority, access, and reporting arrangements are in place;
- provide advice to the [governing body/departmental chief executive] on the appointment of the Head of Internal Audit (in the case of an in-house internal audit function);
- recommend to the [governing body/departmental chief executive] the appointment of the internal auditor;
- periodically review the performance and effectiveness of the internal auditor; and
- be satisfied that any dismissal of the Head of Internal Audit is based on proper and appropriate reasons, to safeguard the independence of the audit function.

External audit

The Committee's responsibilities are to:

- act as a forum for communication between the Chief Executive, senior management, and internal and external auditors;
- provide input and feedback on the financial statements and the audit coverage proposed by the external auditor, and provide feedback on the audit services provided;
- review all external plans and reports for planned or completed audits and monitor management's implementation of audit recommendations;
- oversee the co-ordination of audit programmes conducted by the internal and external auditors and other review functions: and
- provide advice to the [governing body/departmental chief executive] on action taken on significant issues raised in relevant external audit reports and good practice guides.

Projects

[Entities may wish to include overseeing major projects within the role of the audit committee.]

Governance

[Entities may wish to include responsibilities for reviewing governance frameworks and processes.]

Responsibilities of Committee members

Members of the Committee are expected to:

- contribute the time needed to study and understand the papers provided;
- apply good analytical skills, objectivity, and good judgement; and
- express opinions frankly, ask questions that go to the core of the issue, and pursue independent lines of enquiry.

Reporting

The Committee will regularly, but at least once a year, report to the [governing body/departmental chief executive] on its operation and activities during the year.

The report should include:

- a summary of the work the Committee performed to fully discharge its responsibilities during the preceding year; and
- a summary of [the entity's] progress in addressing the findings and recommendations made in internal and external audit reports, and the Auditor-General's reports (if applicable).

The Committee may, at any time, report to the Chief Executive or the [governing body] any other matter it deems of sufficient importance to do so. In addition, at any time an individual Committee member may request a meeting with the Chief Executive or the [governing body].

Administrative arrangements

Meetings

The Committee will meet at least four times each year. A special meeting may be held to review [the entity's] annual report.

The chairperson is required to call a meeting if requested to do so by the [governing body/departmental chief executive], or another Committee member.

A meeting plan, including dates and agenda items, will be agreed by the Committee each year. The meeting plan will cover all of the Committee's responsibilities as detailed in this charter.

Attendance at meetings and quorums

A quorum will consist of a majority of Committee members. Where there is more than one independent member on the Committee, a quorum will include at least one independent member.

Meetings can be held in person, by telephone, or by video conference.

The Head of Internal Audit and external audit representatives will be invited to attend each meeting, unless requested not to do so by the chairperson of the Committee. The Committee may also ask the Chief Finance Officer or other employees to attend Committee meetings or participate for certain agenda items.

The Committee will meet separately with both the internal and external auditors at least once a year.

The Chief Executive may be invited to attend Committee meetings to participate in specific discussions or provide strategic briefings to the Committee.

Secretariat

The Chief Executive will appoint a person to provide secretariat support to the Committee. The Secretariat will ensure that the agenda for each meeting and supporting papers are circulated, after approval from the Chairperson, at least one week before the meeting, and ensure that the minutes of the meetings are prepared and maintained. Minutes must be approved by the chairperson and circulated within two weeks of the meeting to each member and Committee observers, as appropriate.

Conflicts of interest

Once a year, Committee members will provide written declarations to the [chairperson of the governing body/departmental chief executive] stating they do not have any conflicts of interest that would preclude them from being members of the Committee.

Committee members must declare any conflicts of interest at the start of each meeting or before discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately recorded in the minutes.

Where any member is deemed to have a real, or perceived, conflict of interest at a Committee meeting, it may be appropriate that they are excused from Committee deliberations on the issue where the conflict of interest exists.

Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

Assessment arrangements

The chairperson of the Committee, in consultation with the [chairperson of the governing body/departmental chief executive], will initiate a review of the performance of the Committee at least once every two years. The review will be conducted on a self-assessment basis (unless otherwise determined by the [chairperson of the governing body/departmental chief executive]) with appropriate input sought from the Chief Executive, the internal and external auditors, management, and any other relevant stakeholders, as determined by the [chairperson of the governing body/departmental chief executive] in discussion with the chairperson of the Committee.

Review of charter

At least once a year, the Committee will review this charter. This review will include consultation with the [governing body/departmental chief executive].

Any substantive changes to the charter will be recommended by the Committee and formally approved by the [governing body/departmental chief executive].

Example 2: Charter for a departmental audit committee

Introduction

The Audit Committee has been established by the Chief Executive to provide independent advice to assist the Chief Executive discharge their responsibilities for the maintenance of systems of internal control, responsible resource management, and the management of risk.

It is expected that the Audit Committee's role will result in improved management and therefore organisational performance through the provision of alternative perspectives and informed independent advice.

The primary benefit of the Audit Committee is its independence and objectivity in relation to management. The Audit Committee should not assume any management functions nor should management be allowed to exert inappropriate influence over the work of the Audit Committee.

Purpose

The Audit Committee (the Committee) is an independent Committee of [name of department] (the Department), reporting directly to the Chief Executive.

The role of the Committee is to assist the Chief Executive to fulfil their governance duties.

The purpose of the Committee is to provide independent advice and observations to the Chief Executive on the quality of:

- risk management processes;
- internal control mechanisms;
- internal and external audit functions;
- integrity of performance information;
- the governance framework and processes; and
- policies and processes adopted to ensure compliance with legislation, policies, and procedures.

The Committee is advisory only and should not assume any management functions or make decisions that are the statutory responsibility of the Chief Executive.

Membership

The Chief Executive will appoint the chairperson and will appoint other Committee members in consultation with the chairperson.

The Chief Executive may, after consulting the chairperson, remove a Committee member. In the event of the non-performance of the chairperson, the Chief Executive will consult at least two other Committee members before replacing the chairperson.

The Committee will have four Committee members and comprise a majority of external members. The independent Committee members will collectively have risk management, financial, and broad public sector expertise and experience.

The Head of Internal Audit and representatives from the external auditors may attend meetings as observers. The Committee has the right to request that they do not attend certain meetings or parts thereof.

Terms of appointment

Committee members will be appointed for a term of three years initially but may be reappointed for up to two further years. This is to enable continuity in membership of the Committee.

Members' terms should be staggered so that not all members are due for reappointment in the same year.

Duties and responsibilities

General duties

The Committee will:

- seek to understand the key business activities of the Department and the risks which relate to each of these;
- maintain an independent perspective in all its work; and
- report to the Chief Executive on any matter that it sees fit to do so.

Risk management and internal control

The Committee will:

- satisfy itself that appropriate internal processes and procedures and risk management are in place and are operating effectively;
- review compliance with relevant regulatory and statutory requirements;
- monitor implementation of the Department's Code of Conduct/ethical policies; and
- review and monitor the Department's policies and practices on sensitive issues, including sensitive expenditure.

The chairperson will monitor the travel and other reimbursed expenses of the Chief Executive.

Audit functions*Internal audit*

The Committee will:

- recommend for the Chief Executive's endorsement the structure of the internal audit programme and recommend adequate resource allocation;
- monitor effective implementation of the internal audit programme and timely implementation of endorsed recommendations; and
- identify issues that ought to be subject to audit, and recommend audit where appropriate.

External audit

The Committee will:

- discuss with the external auditor the external auditor's audit plan and the nature and scope of the audit;
- discuss issues arising from the interim and final audits, and any matters the external auditor may wish to discuss;
- consider the external auditor's reports;
- monitor the implementation of any recommendations made by the external auditor; and
- monitor and review the independence of the external auditor.

External reporting/performance reporting

The Committee will review the annual report before it is signed by the Chief Executive, focusing particularly on:

- any changes in accounting policies and practices;
- major judgemental areas;
- significant adjustments resulting from the audit;
- compliance with financial reporting and other applicable standards;
- compliance with statutory requirements; and
- other reports prepared by management for release to stakeholders, such as any summary financial reports.

Governance framework and processes

The Committee will:

- review the governance framework and processes of the Department from time to time; and
- provide advice and recommendations to the Chief Executive on the governance framework and processes.

Meetings

Frequency

It is anticipated that the Committee will meet three or four times each year, but it may hold additional meetings as determined by the chairperson in order for the Committee to fulfil its duties and responsibilities.

Quorum

A quorum is two Committee members, who must be independent Committee members.

Additional attendees

The Committee may invite various parties to attend its meetings. These parties may include other members of senior management or line managers as appropriate. When the Committee is considering a report, the manager responsible for the area under review will be given the opportunity to discuss the report with the Committee.

Meetings without management present

The Committee shall meet with the external auditor without management present at least annually.

The Committee shall meet with the Chief Internal Auditor without management present at least twice a year.

Decision-making and voting

It is expected that decisions of the Committee shall be arrived at by consensus.

If it is not possible to arrive at a consensual decision, a vote may be taken at the meeting. The matter will be decided by a majority vote.

Agenda

The agenda will be agreed to by the chairperson before the meeting. The agenda and papers will normally be prepared and distributed by [position] at least one week before meeting dates.

Meeting minutes

Minutes will be kept of all meetings and minutes will be distributed to all Committee members. Minutes will be reviewed by the chairperson before they are circulated and endorsed by the Committee at the following meeting.

The minutes, excluding any parts that the Committee considers confidential, will be made available to the Department's executive management team after each meeting. Relevant extracts of the minutes will be made available to Department employees as determined by the Committee.

Confidentiality

Committee members have a responsibility to treat all information with appropriate confidentiality. This includes matters tabled or discussed at the Committee meetings, as well as any additional issues that are raised outside meetings.

Conflicts of interest

Committee members are responsible for declaring a conflict of interest, whether pecuniary or non-pecuniary. In all cases where a conflict of interest exists, or may be reasonably perceived to exist, the chairperson will rule on whether the member, having disclosed the interest:

- may participate in the discussion;
- may remain in the meeting room but not participate in the discussion; or
- should leave the room and be excluded from any consideration.

Right of access

The Committee shall, through the chairperson, have access to all employees of the Department. The Committee shall have the right to seek independent professional advice when considered necessary and the power to obtain information from management and to consult directly with the Chief Internal Auditor and external auditor.

Monitoring Committee performance

The Committee will ensure that an assessment of its performance and charter is conducted at least once every two years, to ensure that it continues to be focused, effective, and provides a quality service to the Chief Executive.

DATE

Appendix 3

Questions an audit committee might ask

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We encourage entities to adapt these examples to ensure that they are suitable and appropriate for their particular circumstances.

Risk management

Risk management and strategy

- Is there a formal risk management framework?
- If so, does the framework:
 - articulate the overall risk appetite of the entity?
 - link with the entity's strategic documents and processes?
 - include details of reporting, monitoring, and review requirements to assess both performance of, and compliance with, the framework?
 - include a requirement to regularly review and update risk management plans?
 - address the risks associated with cross-agency governance arrangements (where applicable)?
- What are the primary elements of the entity's risk management approach (for example, business continuity plan, disaster recovery plan, fraud control plan, annual risk assessment) and how are these co-ordinated?
- What communication channels are in place to advise staff of the entity's approach to risk management?
- Has the governing body/chief executive formally endorsed, and actively encouraged, the use of risk management in the development of the entity's policies and procedures?
- Does the entity have adequate insurance cover?

Responsibility for risk management

- Has responsibility for the risk management framework and activities of the entity been clearly assigned to a senior manager?

Risk identification and assessment

- How does the entity identify and assess risks, including fraud risks?
- How does the entity identify and record new and emerging risks?

Risk mitigation and improvement

- Are controls in place to effectively manage the highest inherent risks?
- Are there any entity-wide control strategies to address "common risks"?

- How does management ensure that risk mitigation strategies, controls, or improvements are implemented?
- Does the entity's fraud control policy and plan identify controls to effectively mitigate identified fraud risks?

Monitoring/reporting risk assessment activity

- How are critical risks or control failures escalated within the entity and to whom are they reported?
- Does senior management periodically receive reports on risk management plans and take action where necessary?
- Does the internal auditor provide the Committee with a level of assurance over controls that mitigate key risks?
- What information or reports does the governing body/chief executive receive on risk management?
- Has the entity implemented procedures to track the costs of risk management activities?
- Are sufficient resources dedicated to risk management activities?

Internal control

Policies and procedures

- Has the entity documented its internal control systems, including identification of the key controls?
- Are the entity's key controls reflected in, or addressed by, its policies and procedures?
- Are arrangements in place to ensure that the entity's policies and procedures are appropriately reviewed, approved, and communicated to all staff?

Responsibilities and accountabilities

- Are delegations of authority and responsibility to individuals properly approved and kept up to date?
- Are delegations of authority communicated to all staff in the entity?
- Has the responsibility for the development, review, and implementation of key controls and associated policies been clearly assigned to individual managers or business areas?

Business systems and internal controls

- What are the critical internal control areas that warrant the attention of the Committee, and why are they important?

- Does the entity's system of internal controls mitigate controllable risks to an acceptable level?
- Are changes to the design or implementation of key internal controls properly identified and implemented?
- Are there processes to review the adequacy of financial and other key controls for all new systems, projects, and activities?
- Does the entity control its electronic data processing operations effectively?
- Do internal control arrangements address, to the extent necessary, cross-agency responsibilities and external parties, including contractors and advisers?
- Are appropriate business continuity planning arrangements in place?
- Do processes and systems record fraud-related information?
- Are there appropriate security policies and procedures, covering both physical and information technology security?

Conduct and ethical behaviour

- Does the entity effectively communicate the responsibilities of staff for ethical behaviour and conduct?
- Are expectations regarding ethical behaviour and conduct documented and communicated to new and existing staff?

Effectiveness of the control framework

- Are arrangements in place to periodically assess the effectiveness of the entity's control framework (for example, through internal and external audit coverage, management review and sign-offs, and self-assessments)?
- Are internal and external audit findings on key control deficiencies or breakdowns adequately addressed by management in a timely manner?
- Is management aware of any material weakness in internal control?
- Is the Committee aware of other internal control matters that require corrective action?
- Have appropriate actions been taken in response to previous comments and recommendations by the external or internal auditors?
- Have the external auditors modified their planned audit approach based on the results of their test of the systems of internal control?
- Is the internal audit function adequately staffed and organised with a formal internal audit charter?
- What activities would the internal auditors recommend the Committee carry out in connection with its overseeing of internal controls?

- Has the entity succeeded in creating an environment conducive to the achievement of the effective systems of internal control?
- Do the systems in place provide reasonable assurance that errors and conditions contrary to policy are reported?
- Is the Committee aware of any situation where management exceeded its authority in any matters prescribed by the governing body/chief executive or failed to comply with any resolution passed by the governing body/chief executive?
- Does the entity have adequate procedures to identify related party transactions?

The effectiveness of internal audit

Internal audit charter

- Are the responsibilities, access rights, reporting arrangements, and standards of performance of the internal audit function detailed in an internal audit charter?
- Does the charter afford the internal auditor a sufficient level of independence from management?

Internal audit delivery

- Is the Committee satisfied with the service delivery model used to provide internal audit services? (Consider sufficiency of resource, depth of expertise, relationship with management, and the results of independent quality assessment.)
- Where the entity tenders for internal audit, does the tender process ensure that potential conflicts of interest are identified?
- Where the internal audit function is outsourced, are mechanisms in place to identify and manage, where appropriate, potential conflicts of interest?

Annual internal audit coverage and audit plans

- How has the proposed internal audit plan been developed? In particular, does the proposed coverage link to the entity's documented strategic and operational risks?
- Does the plan support the independence of the internal audit function from the activities it audits?
- How are the proposed audit topics prioritised, and was this determination linked to the entity's risk management plan and internal audit's own risk assessment?

- How does the internal audit plan take into account past internal and external audit activity, findings, and recommendations?
- Is the internal audit plan an appropriate mix of compliance and performance audits?
- Does the internal audit plan adequately detail the objective, scope, resource requirements, and for each of the audit topics proposed?
- Has the scope of proposed internal audit activity been adversely affected by resource constraints?
- Have there been any significant disagreements between the internal auditor and management in developing the internal audit plan? If so, have they been appropriately resolved or addressed?

Internal audit reports

- Are internal audit reports clear and concise, and do they satisfactorily address the agreed audit objectives?
- Are internal audit recommendations relevant and practical, and do they reflect a proper understanding of the entity's business?
- Is management's response (agreed/not agreed) to internal audit recommendations included in all reports?
- Do internal audit reports also include an implementation plan for all agreed recommendations?

Resources

- Does the internal auditor have sufficient resources to carry out their responsibilities, including completion of the approved internal audit plan?
- Is the Committee satisfied with the level of skills and experience of the internal auditor?
- Is the internal auditor able to access specialist skills where required?

Performance

- Does the internal auditor have a sufficient understanding of the entity's business?
- Does the internal auditor complete audit assignments in a timely manner and to a high quality?
- Does the internal auditor have effective quality control arrangements designed to ensure that all work is carried out to the required professional standards?
- Does the internal auditor maintain effective liaison with the external auditor?

- Does the internal auditor have a professional and cordial relationship with management?
- What are the key improvements identified in the internal audit quality improvement plan, and is progress being made?

Private session with the internal auditor

- Has the internal auditor had full and unencumbered access to all entity records and information?
- Has the internal auditor received assistance and co-operation from staff and management?
- Are there any issues the internal auditor wishes to discuss with the Committee?
- Does the internal auditor have any suggestions for how the work of the Committee could be improved?

External reporting

Timing

- Are mechanisms in place to ensure that the Audit Committee is being advised throughout the year of all significant issues relating to the financial statements?
- Are arrangements in place to ensure that the financial statements are available for audit and completed on a timely basis?
- Are arrangements in place to ensure that the entity's annual report is finalised and tabled in keeping with the agreed timetable?

Presentation and disclosure

- Have any changes in accounting standards, including international accounting standards, been identified and reflected in the entity's financial statements?
- Do the financial statements comply fully with all reporting and disclosure requirements?

Accounting policies

- Are changes in the entity's accounting policies from previous reporting periods reflected in the financial statements (where necessary)?
- Are these changes reasonable and supportable?
- Have the financial statements been subject to appropriate quality assurance review designed to ensure that they do not contain any material errors?

Content of the financial statements

- Have any deficiencies or breakdowns in the control environment affected the financial statements?
- Have any significant or non-recurring transactions, events, or adjustments affected the financial statements? If so, have these been dealt with appropriately?
- Has the financial effect of any outstanding legal or contractual matters been identified and reflected in the financial statements?
- How do the financial results compare with the entity's budgeted results for the year? Can all significant variations be adequately explained?
- What are the most significant valuations, estimates, and judgements made in the preparation of the financial statements? Are these valuations, estimates, and judgements reasonable and supportable?

Management approvals

- Are the financial statements supported by management sign-offs?

Audit of the financial statements

- Can the assertions made in the management representation letter provided to the external auditor be fully supported?
- Have any deficiencies or breakdowns in the control environment affected the audit of the financial statements?
- Were there any significant adjustments to the financial statements as a result of audit scrutiny?
- Have any errors or discrepancies identified by the external auditor not been rectified in the financial statements?
- Have there been any significant disagreements between management and the internal or external auditors? What were the disagreements and how have they been resolved?

Annual report

- Are arrangements in place to ensure that financial information in the annual report is consistent with the signed financial statements?

Parliamentary committee reports and recommendations

- Does the entity have processes to implement relevant Parliamentary committee reports and recommendations?

- Does the entity have processes that include assigning responsibility to review and action, as appropriate, Parliamentary committee reports and recommendations?

Non-financial performance

- Does the medium-term component (that is, the medium-term, outcome-oriented statement of intended achievements) include information on the entity's objectives, outcomes, impacts, and operating intentions, together with related performance measures and targets, and other information required by legislation and generally accepted accounting practice (GAAP)?
- Does the forecast annual service performance report (that is, the annual, output-oriented Statement of Forecast Service Performance or Forecast SSP) include information on the entity's intended outputs, together with related performance measures and targets, and other information required by legislation and GAAP?
- Is there a "framework" comprising the above two components with enough context and links to strategic-level information, and within and between the information in the two components, to provide a coherent structure for reporting and to clearly demonstrate the rationale for, and the relationships among, the contextual information, elements, performance measures, and targets?
- Has responsibility for implementing monitoring and reporting of entity performance been clearly assigned to individual managers or business areas?

Legislative compliance

Systems and procedures

- Is there an appropriate framework to assist the entity to comply with its legislative obligations? For example, does management have a good understanding of the entity's legal obligations in such areas as occupational health and safety, privacy, the environment, Goods and Services Tax, Fringe Benefit Tax, superannuation, fraud, and security?
- Does the framework identify all material legislation that the entity must comply with?

Responsibilities

- Are procedures in place that provide for any breach of legislation to be reported to senior management?

- Has responsibility for legislative compliance been clearly assigned to individual managers?
- Does the entity have a culture which is supportive of, and encourages compliance with, all relevant laws and subordinate legislation?

To the external auditors about the audit

Before the start of the annual audit

- Have all the entity's business units been considered in formulating the planned audit scope?
- Has management attempted to restrict, or in fact restricted, the audit scope in any way?
- Do the external auditors plan an audit scope significantly different from last year? Do they plan significant modifications this year in the nature and extent of procedures to be performed in any major locations?
- To what extent, if at all, do they plan to rely on the entity's systems of internal control in conducting their audit?
- What techniques and approach do they plan to employ with respect to reviewing or auditing the information technology systems?
- How do they plan to collaborate with the internal auditor in planning their work?
- Is there any area in which additional entity assistance could significantly reduce the planned extent of their work?
- To what extent does their plan reflect expected changes in accounting principles and auditing standards?
- What areas of the planned audit merit special attention by the Committee and why?
- Are there any additional areas of emphasis this year from the Auditor-General's annual audit brief?
- What is their opinion of the quality of the entity's non-financial performance measures?
- Has the external auditor clearly articulated the proposed financial statement and performance audit coverage?
- Has the external auditor taken into account the internal audit coverage when establishing their audit coverage?

On completion of the audit

- Did management attempt to or actually restrict their work in any way?
- How co-operative were the entity's personnel?
- In what specific ways was their audit approach modified from the plan previously discussed with the Committee, and why?
- Did they identify any areas of potential management bias in financial reporting?
- Will the external auditors' report be modified in any respect?
- Did any possible improprieties come to their attention during the course of their audit? If so, how were they resolved?
- What is their opinion as to the quality of the accounting and financial staff?
- Were any important internal control deficiencies encountered?
- Were there any significant audit adjustments? What were the causes of the errors and do they demand further investigation?
- Were there any unadjusted audit differences that were the subject of discussion or dispute with management?
- Did any conditions come to the auditor's attention during the course of the audit that may warrant in-depth investigation by management, the internal auditors, or the Committee?
- Is the application of accounting standards in the financial statements acceptable and appropriate?
- Has the external auditor identified significant control or other issues which require management attention?
- What is the external auditor's opinion of the quality of systems in place to record and report non-financial performance information reported in the statement of service performance?
- Has the external auditor kept the Committee regularly informed about the progress of audits?
- Has the external auditor been receptive to suggestions from the Committee about proposed audit coverage and the timing of audits?
- Has the external auditor maintained professional and cordial relations with management?
- Has the external auditor made a useful contribution to the deliberation of the Committee?

Private sessions

- Has the external auditor had full and free access to all records and information required to conduct their audits?
- Has management displayed a constructive and professional approach to the external auditor?
- Are there any issues that the external auditor wishes to raise with the Committee about the audit of the entity's financial statements, in particular or more generally?
- Does the external auditor have any suggestions on how the work of the Committee could be improved?

Appendix 4

Example of a performance assessment

Audit committee effectiveness evaluation checklist

An audit committee can evaluate its performance by:

- self-review;
- self-review with input from senior management and/or the external auditors;
or
- independent review.

This checklist is designed to be used as a self-review tool, with input from management and the external auditor. It has been designed in keeping with the principles outlined in this guide.

Independence	✓
Are most of the audit committee either external members (for government departments) or non-executive governing body members?	
Is the chairperson of the audit committee a different person to the chief executive of the entity or the chairperson of the governing body (or equivalent, such as the Mayor or departmental chief executive)?	
Is the size of the audit committee conducive to effective audit committee performance? (The optimal size is usually 3-5 members.)	
Is the composition of the audit committee conducive to maintaining continuity and ensuring a fresh perspective? (That is, is there an appropriate rotation schedule for members?)	
Competence	✓
Does the audit committee have relevant expertise and experience?	
The committee should include members with a range of appropriate skills. As a minimum these would normally comprise:	
• financial expertise;	
• risk management and assurance expertise;	
• relevant industry/sector expertise; and	
• experience in governance.	
Does the mix of skills on the audit committee allow it to effectively perform its assigned responsibilities?	
Has the audit committee been able to analyse and critically evaluate information presented to it by management?	
Has the audit committee been sufficiently probing and challenging in its deliberations?	
If the appointed governing body members do not have the depth of skills and experience necessary, has the entity sought these skills from outside the organisation by appointing independent members to the audit committee?	
Is an induction programme provided for new audit committee members, covering the role of the audit committee, its terms of reference, expected time commitment, and overview of the organisation including key strategies and risks?	

Do the audit committee members keep abreast of wider developments relevant to their role and responsibilities?	
Consider whether members are informed about developments in:	
• corporate governance;	
• financial reporting;	
• internal controls and assurance;	
• risk management; and	
• sector issues and developments, including the expectations of the Auditor-General, the Treasury, the State Services Commission, and the Crown Company Monitoring Advisory Unit.	
Clarity of purpose	✓
Is there clarity about the role of the audit committee within the overall governance structure?	
Is there a written and approved terms of reference (such as an audit committee charter)?	
Do the terms of reference clearly distinguish the role of the audit committee from other committees?	
Do the audit committee's responsibilities include:	
• reviewing the adequacy of the organisation's risk management processes?	
• reviewing the adequacy of the organisation's system of internal controls?	
• reviewing the integrity of reported performance information, including financial and non-financial information?	
• reviewing the effectiveness of the internal audit function?	
• if there is no internal audit function, considering each year whether there is a need for an internal audit function?	
• reviewing the effectiveness of external audit arrangements?	
• reviewing the adequacy of the organisation's systems for monitoring compliance with legislative and regulatory requirements?	
• reviewing the effectiveness of ethics and values programmes?	
• reviewing the arrangements by which staff may confidentially raise concerns about possible fraud/impropriety?	
Where the audit committee is largely advisory, does it also consider:	
• the effectiveness of governance arrangements?	
• external accountability reporting, including the clarity of links between non-financial performance measures and strategy?	
• the integrity of systems and processes that record non-financial performance information?	
• overseeing the management of significant projects?	

Execution of responsibilities	✓
During the past 12 months, did the audit committee adequately address all of its responsibilities as detailed in its terms of reference?	
If not, are arrangements in place to rectify this in the next 12 months?	
Risk management and controls	
Does the audit committee have enough understanding and appreciation of the entity's risk management framework?	
Consider the audit committee's knowledge of:	
• who within management has responsibility for the risk management framework;	
• whether a formal risk management framework exists;	
• how the entity identifies and assesses risks, including fraud risks;	
• how the entity records new and emerging risks;	
• whether controls are in place to effectively manage the highest inherent risks; and	
• how management ensures that risk mitigation strategies, controls, or improvements are implemented.	
Does the audit committee have enough understanding and appreciation of the effectiveness of the entity's internal control environment?	
Consider the audit committee's knowledge of:	
• what the critical internal control areas are that warrant the attention of the audit committee, and why they are important;	
• whether the entity's key controls are reflected in, or addressed by, its policies and procedures;	
• the extent to which internal audit provides the audit committee with a level of assurance over controls that mitigate key risks;	
• whether there are processes to review the adequacy of financial and other key controls for all new systems, projects, and activities; and	
• whether the entity controls its information technology operations effectively.	
Financial reporting	
Does the audit committee consider the clarity and completeness of disclosures in the financial statements, whether disclosures made are set properly in context, and whether they comply with financial reporting standards?	
Does the audit committee review related information presented with the financial statements, including the operating and financial review and statements relating to corporate governance, culture and values, and the independence of the external auditors?	
Does the audit committee review and approve the statements included in the annual report in relation to internal control and the management of risk?	
Internal audit	
Does the audit committee ensure that the internal audit function has the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform in accordance with appropriate professional standards for internal audit?	

In assessing the effectiveness of the internal audit function, does the audit committee consider:	
• if there is free access to the governing body's chairperson or the chief executive and the audit committee?	
• the role and effectiveness of the internal audit function in the overall context of the organisation's risk management system? (That is, is there a clear link between the audit programme and the organisation's risk management framework?)	
• management's responsiveness to internal audit's findings and recommendations?	
Did the audit committee review the internal audit charter to ensure that appropriate structures, authority, access, and reporting arrangements are in place?	
Has the audit committee enquired as to whether the internal audit function has had its activities reviewed and whether a quality improvement plan exists?	
Does the audit committee consider whether internal audit has made progress in implementing its quality improvement plan?	
External audit	
Has the audit committee developed and recommended a policy in relation to the provision of non-audit services by the external auditor to ensure that the provision of such services does not impair the external auditor's independence or objectivity?	
In determining the policy, has the committee taken into account the relevant guidance (for example, the Auditor-General's independence rules)?	
Does the audit committee meet with the external auditors before the start of the annual audit to communicate matters of relevance to the audit and review and confirm the areas of audit focus?	
When the audit committee reviews with the external auditors the findings of their work, does the committee make enquiries about:	
• major issues that arose during the course of the audit and have subsequently been resolved, and those issues that have been left unresolved?	
• key accounting and audit judgements?	
• the errors identified during the audit, obtaining explanations from management as to why certain errors remain unadjusted?	
Does the audit committee formally assess the effectiveness of the audit process and the performance of the external auditors?	

Open and effective relationships	✓
Management	
Does the audit committee ensure that its requests of management to do further work or provide further information are reasonable?	
Consider:	
• the cost/benefit of the request;	
• linking the request to key risks faced by the organisation; and	
• relative priority in management's work programme.	
Did information presented by management (not the internal auditor) meet the audit committee's expectations (nature, clarity, quality, and timeliness)?	
Internal audit	
Does the audit committee meet with the internal auditor without management being present?	
Is there a standing invitation for the internal auditor to regularly attend audit committee meetings?	
Has the internal auditor been able to raise matters of concern with the audit committee in an open and frank manner?	
External audit	
Does the external auditor have unrestricted access to the chairperson of the audit committee?	
Is there interaction between the audit committee chairperson and the external auditor outside the committee meetings?	
Does the audit committee meet with the external auditor without management being present?	
Is there a standing invitation for the external auditor to regularly attend audit committee meetings?	
Meeting administration and conduct	
Has the audit committee had the appropriate number of meetings at the appropriate times to properly discharge its duties?	
Is sufficient time allowed between meetings to allow any work to be carried out?	
Does the agenda-setting process allow for all necessary items to be included?	
Does the audit committee have input into setting the agenda?	
Is the agenda structured to allow sufficient time to discuss the most complex and critical issues?	
Does the audit committee receive agenda items and supporting papers in enough time before meetings?	
Are audit committee members given the opportunity to be briefed before meetings?	
If so, are these briefings useful?	

Are the audit committee agenda and supporting papers of sufficient clarity and quality to make informed decisions?	
Are audit committee meetings well run and productive?	
Are audit committee minutes appropriately maintained and of good quality?	
Are audit committee minutes circulated and approved promptly?	
Does the audit committee have time without management present to discuss key issues it would like to hear from management on?	
If not, has the audit committee considered if this would be useful?	
Effectiveness considerations	
In which of the areas outlined below has the audit committee added value to the organisation?	
• improved the organisation’s policies and practices?	
• improved the organisation’s risk management?	
• improved the organisation’s control environment?	
• improved the organisation’s legislative compliance?	
• improved the organisation’s accountability model, including where applicable accountability for non-financial performance/achievement of results?	
• improved understanding by the organisation as a whole of its strategic, operational, financial, and compliance risks?	
• strengthened internal assurance mechanisms, including internal audit?	
• improved the effectiveness and efficiency of the processes and controls?	
• improved transparency of organisational accountabilities?	
• supported/advocated alignment of audit resources to address the areas of highest risk or critical performance?	

Appendix 5

Sample acceptance and acknowledgement letter

We encourage entities to adapt this example to ensure that it is suitable and appropriate for their particular circumstances.

Acceptance and acknowledgement letter – external members

I, _____ accept the invitation to sit on the XXXX Audit Committee.

I understand that the term of the role is for two years (24 months). My tenure is renewable by further invitation and acceptance.

In accepting the role of an External Member of the Audit Committee, I have read the Terms of Reference of the Committee and I acknowledge the following Code of Conduct expectations:

- I will declare any conflict of interest (perceived or actual) between my personal or business interests and the duties of the Committee.
- If an interest is likely or would, if publicly known, be perceived as being likely to interfere with the exercise of my independent judgement, then I will report the interest, financial or otherwise, to the Chairperson and will fully disclose it to the Committee before the matter giving rise to the interest is considered. I accept that I may be asked to withdraw from that part of the meeting where the particular matter is being considered.
- I accept that I must not receive gifts, hospitality, or benefits of any kind from a third party that might be seen to compromise my personal judgement or integrity. I will immediately report any offer or receipt of such gifts, hospitality, or benefits to the Chairperson.
- During my tenure as External Member, I will not carry out additional or other services for the organisation that may prejudice my role on the Committee.
- I will treat the information and matters discussed at Committee meetings with due regard to any confidentiality and sensitivity of the information that may arise from time to time. (Any regard for confidentiality, however, should not undermine the transparency and accountability expected of the Audit Committee processes; nor should it limit or compromise the independent role expected of external members.)

External Member

Dated

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- New Zealand Trade and Enterprise: Administration of grant programmes – follow-up audit
- Mental health services for prisoners
- New Zealand Agency for International Development: Management of overseas aid programmes
- Liquor licensing by territorial authorities
- Implementing the Māori Language Strategy
- Management of conflicts of interest in the three Auckland District Health Boards
- Annual Report 2006/07 – B.28
- Turning principles into action: A guide for local authorities on decision-making and consultation
- Matters arising from the 2006-16 Long-Term Council Community Plans – B.29[07c]
- Local government: Results of the 2005/06 audits – B.29[07b]
- Effectiveness of the New Zealand Debt Management Office
- Statements of corporate intent: Legislative compliance and performance reporting
- Department of Labour: Management of immigration identity fraud
- Assessing arrangements for jointly maintaining state highways and local roads
- Sustainable development: Implementing the Programme of Action
- New Zealand Customs Service: Collecting customs revenue
- Ministry of Health and district health boards: Effectiveness of the “Get Checked” diabetes programme

Website

All these reports are available in HTML and PDF format on our website – www.oag.govt.nz. They can also be obtained in hard copy on request – reports@oag.govt.nz.

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MACKENZIE DISTRICT COUNCIL

REPORT TO: FINANCE COMMITTEE

SUBJECT: MANAGEMENT REPORT – AUDIT YEAR ENDED 30 JUNE 2010

MEETING DATE: 1 FEBRUARY 2011

REF: FIN 2/AUDIT 2010

FROM: MANAGER – FINANCE AND ADMINISTRATION

ENDORSED BY: CHIEF EXECUTIVE OFFICER

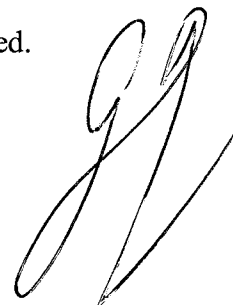
PURPOSE OF REPORT:

Attached is AuditNZ Management Report on the Audit of Mackenzie District Council for the year ending 30 June 2010.

STAFF RECOMMENDATIONS:

1. That the report be received and the information noted.

PAUL MORRIS
MANAGER – FINANCE & ADMINISTRATION



GLEN INNES
CHIEF EXECUTIVE OFFICER

ATTACHMENTS:

Management Report Audit of Mackenzie District Council for the year ended 30 June 2010.

BACKGROUND:

It is normal practice for the Auditor to complete a report to management with the findings concerning management issues arising from the Audit of Councils financial statements .

Management has the opportunity to comment on these findings and has done so.

This report is provided for Councils information.

DECISION REQUIRED:

There is no decision required.

Management report on the audit of
Mackenzie District Council
for the year ending 30 June 2010

Management Report

Audit New Zealand has carried out this audit on behalf of the Controller and Auditor-General.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Our audit has been carried out in accordance with the Auditor-General's auditing standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity, or inefficiency that is not material to your financial statements and statement of service performance.

Implementing and maintaining systems of internal control for detecting these matters remains the responsibility of the Council and management.

Statement of auditor independence

We confirm that, for the audit of the Mackenzie District Council's (the "Council's") financial statements and statement of service performance for the year ended 30 June 2010, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit and in carrying out the audit of long-term council community plan, and an amendment to the long-term council community plan, we have no relationship with or interests in the Council.

Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements or statement of service performance. Management has not sought to influence our views on matters relevant to our audit opinion.

Other relationships

We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.

We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council during or since the end of the financial year

Report to the Council

from the audit for the year ended 30 June 2010.

We have completed the audit of Mackenzie District Council (the Council) for the year ended 30 June 2010. This report sets out our findings from the audit and draws attention to recommendations for improvement.

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Key messages

We issued an unqualified audit opinion on 21 December 2010. This means that we were satisfied that the financial statements and statement of service performance fairly reflected the Council's activity for the year and its financial position at the end of the year. A prior period error was also corrected in the financial statements. The error was related to the treatment of a Housing NZ payment received in 2008. It had incorrectly been recognised as a loan.

We assessed the overall management control environment in areas other than service performance as "effective". Nevertheless, we have identified areas of necessary improvement in the Council's control environment and systems of internal control.

Council did not adopt the annual report by the deadline of 31 October, as required by the Local Government Act 2002. This was due to delays and weaknesses in the process of preparing the annual report. A complete draft of the report was first made available approximately three months after the agreed date. The audit opinion was signed two and a half months after the initial plan date.

We strongly recommend that the Council focus on improving its processes for 2011. Recommended areas of improvement are:

- the formation of an audit committee;
- the consideration of additional resources to assist in the preparation of year-end financial statements and statement of service performance;
- the preparation of clear and concise financial statement supporting workpapers; and
- a focus on improving channels of communication between management and Audit NZ.

With respect to the statement of service performance, we were satisfied that the audited service performance information complied with generally accepted accounting practice and fairly reflected the actual achievements and performance of the Council. However, we identified several areas where Council can enhance its non-financial performance in future years. These include:

- regular full reporting of the actual performance against targets to Council;
- improvements in some of the underlying systems used to compile non-financial information;
- the rationalisation of measures; and
- the inclusion of trend information, as relevant.

Our audit opinion

We issued an unqualified audit opinion

We issued an unqualified audit opinion on 21 December 2010. This means that we were satisfied that the financial statements and statement of service performance fairly reflected the Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters.

Breach of statutory deadline

Council adopted its annual report on 21 December 2010. This was after the 31 October statutory deadline required under the Local Government Act 2002 (the Act). Appropriate disclosure of Council's non-compliance with the statutory deadline was made in the annual report.

Prior period error

We identified a prior period error. The Council had received a loan amounting to \$516,000 from Housing NZ in 2008. This loan was interest-free and only repayable after 20 years if a local authority did not spend the loan on social housing improvements. If the local authority did, the loan was not repayable. These loans were recognised by the sector as revenue in 2008, with a contingent liability disclosure outlining the repayment clauses. Council did not account for the loan from Housing NZ in this fashion. Instead, it was recognised as a loan.

Council appropriately corrected for the prior period error in the financial statements and disclosed the information required under NZ IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Management Comment

Management disputes this as a statement of fact. Our original position in 2008 was to record this transaction as a contingent liability. Our initial treatment was requested to be changed by Audit NZ to crystallise the loan as a non-current liability. Audit NZ requested Council again change its approach in 2010 to now recognise the loan as a contingent liability.

Unadjusted misstatements

The financial statements and statement of service performance are free from material misstatements, including omissions. However, in the course of the audit, we found:

- certain misstatements that are individually and collectively not material to the financial statements and the statement of service performance; and
- certain immaterial disclosures, required by generally accepted accounting practice (GAAP), that have been omitted from the financial statements.

We have discussed any misstatements that we found with management. The significant misstatements that have not been adjusted are listed in Appendix 1 along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Assessment of your management control environment

We performed a high-level review of Council's management control environment. This included considering Council's and management's overall attitude toward, awareness of, and actions in establishing and maintaining effective management procedures and internal controls.

The purpose of our review was to:

- identify aspects of the control environment that can be relied on during the audit; and
- identify potential areas for improvement.

Our conclusions are made in the context of our work in conducting the audit. They are not an assessment of overall management performance or of the Council's effectiveness in achieving its objectives.

Overall, we assessed the control environment as "effective"

We have assessed the management control environment in areas other than service performance reporting as "effective" for the purposes of audit. This means that we placed some reliance on the control environment as part of our audit testing.

There are several areas where Council can enhance the internal control systems relating to service performance reporting systems. These are discussed in section 3.

Particular aspects of the control environment that we comment on are outlined below.

Governance

The Local Authorities (Members' Interests) Act 1968 restricts the amount a Councillor may be paid directly or indirectly for the supply of goods and services to the Council to \$25,000 (including GST) per year, unless prior approval from the Office of the Auditor-General (OAG) is received.

The onus under the Act is on the member to monitor compliance with the Act; however, we believe that Council should assist members to do this.

As part of the 2009 audit, we recommended that the Council consider establishing a formal record of members' interests. We understand that the recently elected Council has approved the establishment of a register of members' interests. We will follow up this point as part of our 2011 audit.

Management Comment

This position is incorrect. It assumes the recently elected Council has approved the establishment of an interest register – this is not the case.

Attitude to fraud risk

In the previous year we reported that, although the Council was aware of the risk of fraud occurring, it did not have a fraud policy in place.

This year we note Council has a draft fraud policy and we have undertaken a high level review of the policy against good practice criteria. Overall, we have found the policy to be good. It includes a number of the key elements that should be included in a fraud policy, such as ensuring that every individual suspected of committing a fraud is dealt with in the same manner.

However, before the policy is adopted, we recommend that Council consider including the following provisions:

- a system for undertaking regular reviews of transactions, activities, or locations that may be susceptible to fraud; and
- the principle that recovery of the lost money or other property will be pursued wherever possible and practicable.

Management comment

Management Comment

We agree in principle to this proposal and will review the activities that it considers are susceptible to fraud after taking into account the benefits to be achieved compared to the cost of systems to be implemented. Management will present these findings to the Audit and Risk Committee (yet to be formed) before 30 June 2011.

Planning and budgeting

We assessed Council's budgeting, monitoring and forecasting procedures to be sufficiently robust for us to place reliance on them for the purpose of our audit of Council's financial statements. This assessment was arrived at during our audit of Council's LTCCP in the previous year and through our involvement in the LTCCP amendment process during 2010.

Risk management

We enquired into Council's current approach to risk management and the processes in place to identify and manage these risks.

Council gives consideration to risks through the LTCCP and annual plan process. Council also has a number of measures to reduce its exposure to risk. For example, a material damage insurance policy is in place to insure underground reticulation up to

\$1 million. In addition, Council has delegated management of its investment portfolio to the merchant bank, Bancorp.

However, Council does not have a formalised risk management approach. Formalising such an approach through the development of a corporate risk register would facilitate identification, monitoring and management of Council-wide risk issues.

Management Comment

We agree with this suggestion and will compile a corporate risk register for presentation to the Audit and Risk Committee before 30 June 2012.

Legislative compliance

Council does not have formal processes or procedures in place to monitor new legislation and track compliance with relevant legislation. We note that management make use of legislative compliance updates and modules provided by SOLGM.

Council Company is required to comply with a large number of legislative requirements. Non-compliance could result in Council incurring penalties. To reduce the risk of Council breaching legislation, we recommend that a system be implemented to ensure compliance is monitored and reported.

There should be reporting to Council at least annually to provide assurance that management have complied with key legislative requirements.

Management Comment

Management will seek advice from other small to medium sized councils to ascertain whether the benefits outweigh the costs in compiling and maintaining such procedures. As part of this advice, management will also explore piggy-backing other Councils systems to see if this will deliver more cost-effective and timely results.

Internal controls

We reviewed the internal controls in place for Council's key financial systems including revenue, expenditure, payroll, property plant and equipment, investment, bank reconciliation and journal systems.

We consider that there are aspects of these systems that we can place reliance on for the purposes of our audit. We have updated our understanding of these systems and where appropriate tested the key controls within those systems to confirm that they have been operating effectively throughout the period.

There are a number of internal control matters that were raised in the prior year, and a small number of additional control matters identified this year where we consider the control environment could be further enhanced.

Our detailed findings on internal controls are included in section 5 of this report.

Audit of Service Performance

Introduction

Service performance reporting by public sector entities has generally been considered weak. This was highlighted by the Auditor-General in her December 2009 letter sent to all local authorities, when she outlined that on returning to the office, she had found very little improvement in service performance reporting in the past 15 to 20 years.

Good quality performance reporting provides the information needed from which to assess performance. In the case of a Council it explains what the actual levels of service were compared to what was committed to in the LTCCP.

Effective performance reporting is critical in the current environment, given increasing levels of public scrutiny and accountability, with pressure on public entities to demonstrate effectiveness and value for money. Combined with the financial reports, the readers of the annual report can see how the service delivery aligns with the actual amounts spent as against what was planned.

During the 2010 audit our work in this area focused on:

- the quality of the overall “story” told by the performance report - that is, can the reader readily assess what and how well Council has done from the information presented;
- the reliability and accuracy of the reporting;
- the completeness of the reporting against the performance framework as outlined in the LTCCP; and
- compliance with relevant legislation, in particular Schedule 10 of the Act.

Our initial review found that Council did not meet the expectations outlined above. We found that only a minimal level of narrative information/context to assist the reader in making an informed assessment of Council’s performance. This was both in general and for individual performance measures.

The quality of the draft service performance information was such that it would have resulted in an audit report qualification. However, following our feedback, management put in considerable effort to further develop and improve the disclosures. Overall, we are satisfied that the final audited service performance information complied with GAAP and fairly reflected the actual achievements and performance of Council.

The work we completed in arriving at this conclusion is set out below.

Work performed

We reviewed Council's groups of activities and identified the main areas of risk, and the related activities and performance measures that we assessed as being significant to those risks.

We also considered the "business as usual" activities of Council, and the adequacy of the related systems and procedures for reporting information on performance of those activities.

Using these criteria we identified risks and critical aspects of Council's performance in the following activities:

- Rooding;
- Water supply;
- Solid waste;
- Building control; and
- Resource management.

A complete listing of the significant measures is included in Appendix 2.

We met with management to update our understanding of Council's business and also specifically with respect to the service performance reporting to:

- revalidate whether the performance framework provided an appropriate basis for the meaningful assessment of Council's performance, taking into account the fact one year has passed since the time of the LTCCP audit;
- assess whether Council's performance framework enabled it to report in a way that allowed Council to fairly reflect actual performance at year end;
- identify whether there were any gaps in the performance framework where additional information should be reported, to enable Council to fairly reflect actual performance;
- assess the effectiveness of Council's management control environment with respect to the statement of service performance, at both the overall Council reporting level and at an individual activity level; and
- assess whether Council has the underlying systems in place to enable it to report accurately and completely against its performance framework.

Our overall conclusions are outlined below:

Appropriateness of the performance framework

When we performed the audit of Council's 2009-19 LTCCP we concluded that the performance framework provides an appropriate basis for the meaningful assessment of Council's actual performance reporting.

We updated our assessment to take into account any changes in Council's business and activity since the LTCCP was adopted. We were satisfied that Council's performance framework continued to provide an appropriate basis on which to assess Council's performance.

We have identified that improvements can be made to the framework, and these improvements are discussed in section 3.5.

Effectiveness of the management control environment for non financial information

We have assessed the control environment at the overall reporting level as "**ineffective.**" In coming to this conclusion we have taken into account a number of control matters.

We acknowledge that Council receives quarterly reports for resource consent and building control activity areas, and roading activity reports are presented monthly to the roading committee. Nevertheless, there is no regular comprehensive reporting to the full Council across all of Council's activity areas.

We also found that where regular reporting to Council occurred, not all performance measures were reported. For example, a key performance measure we identified for the roading activity area is the response time of emergency reinstatement work. Performance against this measure has not been reported during the year.

We recommend that Council urgently reviews its formal monitoring and reporting mechanisms.

Management Comment

Management will recommend to Council that we will proceed on the basis that current performance measures are adequate and that they should not be changed in the interim. We will review the areas to be improved and amend as necessary at the Long-term Plan in 2012, management will start work on reviewing these measures now.

Areas for improvement identified

While we are satisfied that the service performance statements comply with GAAP and fairly reflected the actual achievements and performance of Council, there are several opportunities to further enhance non-financial reporting for future years:

- Consent/PIMs/LIMs processing – we found that staff were inconsistent in how they recorded process times. Additionally, we found that supporting documentation for key processing dates was not always retained. Consequently, we could not rely upon the information produced by Council. No results were able to be reported in the annual report.

Management should develop formal procedures for the processing of consents/PIMs/LIMs. Once developed, staff need to be advised of the procedures. Finally we would recommend that a regular review and monitoring of data is started. Random spot-checking would be acceptable.

Management Comment

Management agree that there are opportunities to further enhance non-financial reporting in future years. We agree that Consent/LIMs/PIMs processing was inconsistent. We consider this can be remedied by staff training in the software systems we currently have in place.

- Complaints – Council does not have a formal complaints system. Therefore, it was not clear whether we were provided with a comprehensive list of complaints. A formalised system will assist in the recording and tracking of this information.

Management Comment

Management will turn its mind to this area and report to the Audit and risk Committee within 12 months.

- Rationalisation of measures – there are a number of measures which are unable to be measured, or where they are able to be measured, nevertheless have not been measured by management. Examples include many of the secondary measures in the water and sewerage activities. Council may want to consider rationalising these measures when developing the 2012-22 Long Term Plan (LTP).

Management Comment

We agree this needs to be reviewed and will undertake this review for inclusion in the 2012 Long-term Plan.

- Inclusion of trend information for all measures where available - Council did include some trend information and this could be usefully expanded in future years.

Trend information is valuable as it highlights issues to focus on that have developed over time, providing a perspective that can be missed from a simple comparison between planned and actual results for a single year.

Management Comment

We agree with this concept and will look to further extend the inclusion of trend information.

- There are opportunities to further improve the review and evaluation of information received from contractors which forms part of the information reported by Council externally. This is also a critical aspect of effective contract management.

For example, roading emergency response times were not formally tracked and reported by the contractor. Consequently, Council was unable to definitively state whether the contractor complied with the response times target consistently during the year.

Additionally, contract management could be enhanced by formally checking that what the contractors are reporting is accurate.

Management Comment

These ideas need to be discussed with Council's contractors to see what is practical and cost-effective.

Significant audit findings

Preparation of the financial statements

The process of preparation of the financial statements and annual report was very weak in 2010. The key agreed dates included in the arrangements letter were as follows:

- Draft financial statements and annual report available for audit: 6 September 2010.
- Final audit commences: 13 September 2010.
- Verbal clearance: 1 October 2010.

These dates were agreed to allow Council to adopt the annual report before the elections in early October 2010.

These dates were not achieved, by a considerable margin. Management twice requested us to re-book our final audit visit, initially to late September and finally to mid-October. When we began our final audit, we were provided with incomplete financial statements. The annual report incorporating the service performance information was also incomplete. We were unable to obtain answers to all of our audit queries. Supporting schedules for information included in the financial statements were also often incomplete. We were required to make two further site visits in November and December before all of our audit work was completed. This is a very inefficient and expensive way of having an audit process carried out.

A complete draft set of financial and performance statements was provided to us on 3 December 2010, approximately three months after the agreed date. Our audit opinion was signed some two and a half months after the initial planned date.

Our discussions with management indicated that a lack of capacity in the finance team was the main reason for the delays outlined above. Council employed three different accountants during the period from the start of the financial year to the date of adoption of the annual report by Council.

We recommend urgent improvements be made in to Council's annual report process. These are:

- Council should form an Audit Committee, with a suitably committed and skilled membership, charged with the responsibility of ensuring clear communication with Audit NZ over audit arrangements, audit process, provision of satisfactory information, and the management of deadlines and issues arising.
- Council to seriously consider whether it needs additional resources to prepare and produce the financial statements. If there is a need for further resources, management may wish to contract the necessary services from an accounting service provider.
- The preparation of clear and concise financial statement support workpapers would greatly assist both management and Audit and increase the efficiency of the annual report process.
- The communication between management and Audit urgently needs to improve. The lack of coordination at this level led to a very inefficient and expensive audit process.

The process of preparation of the financial and performance statements will again be an area of audit focus for 2011.

Management comment

We agree with the suggestion that an Audit Committee be formed. We think its brief should extend to include other forms of risk as well. We will provide the Committee with a framework and terms of reference for the Council to agree.

Management believes that it needs a stable workforce and adequately funded staff training to ensure timely completion of its financial processes. Neither were available for the 2010 audit.

Asset valuations

Council revalued its investment in Alpine Energy Limited as at 30 June 2010. We reviewed the valuation and accepted that it had been prepared in accordance with NZ IAS 39, *Financial Instruments: recognition and measurement*, and was recorded correctly in the financial statements.

We also reviewed management's assessment as to whether the estimated fair value of its property, plant and equipment (PPE) was materially different from the carrying value. Under NZ IAS 16, *Property, plant and equipment*, a valuation is required when there is a material difference. This assessment was done late, which meant that if a valuation was required, there would have been insufficient time to complete one. We recommend that in future management complete this assessment early enough to allow time to process a valuation if required.

We have identified further audit findings in relation to asset valuations below.

Management comment

These will be incorporated into our end of year checklist and will be completed in a timely manner.

Valuation of land

Council revalues its operational and infrastructural land. The last valuation was as at 1 July 2006. The revaluation accounting policy dictates that 'future valuations will be carried out on a three-yearly basis'. Therefore, Council is currently not complying with its accounting policy. We accepted no valuation being processed in the 2010 financial statements, as the evidence provided to us indicated that it was unlikely there was a material misstatement. However, we recommend that management rectify this area of non-compliance in 2011.

As with all PPE valuations, the valuation must be prepared in accordance with NZ IAS 16. This means that the assets would be valued at fair value, which is the amount for which an asset could be exchanged between willing parties in an arm's length transaction. The valuation would also need to be prepared or peer-reviewed by an independent expert. Revaluing land in line with the current rateable values is not acceptable.

Management comment

Management used the current rateable value in 2006 which at that time was acceptable to Audit. Management had used the August 2009 values for inclusion in the 2010 results. However the use of these results now appears, not to be acceptable to Audit.

Capital work in progress

Our review of the capital work in progress (WIP) balance initially recognised by Council found that it was significantly overstated. The overstatement was due to the following reasons:

- Some completed projects had not been capitalised and transferred to other PPE asset classes.
- Certain projects had been incorrectly recognised as capital WIP. These projects were actually operational expenditure.

- One project recognised as WIP was actually property intended for sale.

These errors were generally corrected in the audited financial statements. Note that there was one unadjusted misstatement, which we have outlined in Appendix 1. The extent of the changes required (capital WIP dropped from \$3.6 million to \$710,000) indicates the importance of the improvement required in management's processes to record and capitalise WIP. We recommend that management urgently review their procedures in this area.

Management comment

Management will review its procedures and either add a WIP review to its month end or year end processes depending whether it is decided to move to monthly capitalisation or remain with the current yearly capitalisation of assets and WIP.

Inconsistent accounting policies

Council holds 4% share in Downlands joint venture water scheme. Council's policy is to revalue its water assets on a 3 yearly cycle. We understand from discussion that the joint venture is applying deemed costs to the water scheme and will not be revaluing the scheme in the future. This effectively means that the joint venture's accounting policy is inconsistent with Council's.

We recommend that Council considers approaches to resolving this inconsistent accounting policy. This may include the joint venture revaluing its water assets as a separate exercise, for inclusion in Council's financial statements.

Management comment

Management will approach Timaru District Council to align its policy with their treatment to remove the inconsistency.

Asset management plans

We discussed with management the progress that has been made in updating Council's asset management plans (AMPs). We understand that some progress has been made, which will also incorporate our findings from our audit of the 2009-19 LTCCP.

Given that Council will soon begin planning for the 2012-22 LTP, we anticipate that significant progress will be made in updating the AMPs. We will follow this up as part of our 2011 audit.

Emissions Trading Scheme

Council joined the emissions trading scheme during 2010. The Government granted approximately 14,000 carbon credits which were appropriately recognised as intangible assets in the financial statements. These carbon credits were sold after year-end.

Internal controls

Payroll

We have updated and confirmed our understanding of the payroll system.

Staff

We found that in the event that the payroll clerk is not able to perform her role there is no alternative staff member to perform payroll tasks. If the payroll clerk is absent from her post for any period of time this could result in payroll process problems for Council.

We recommend that another staff member is trained to provide additional payroll support for when the payroll clerk is unavailable.

Management comment

We agree. Management will implement a staff training regime where possible to ensure staff back-up is available or where it is more cost-effective and practical agree with neighbouring Councils/contractors, using the NCS system, to provide adhoc backup when required.

Monthly reconciliations

We found that monthly reconciliations between the general ledger and the payroll system are not being performed.

We recommend that monthly payroll reconciliations are prepared on a timely basis and are independently reviewed. If the primary reviewer is unavailable, an alternative staff member should perform the review.

Management comment

We agree.

Expenditure

We have updated and confirmed our understanding of the expenditure system.

Credit cards

We reviewed a sample of credit card expenditure. We found two cases where the supporting documentation did not include the relevant invoice. We also identified a credit card payment made in October 2009 which was not subsequently authorised.

Supporting documentation is required to allow the authoriser to assess the appropriateness of expenditure. Without sufficient documentation being retained by Council, the one-up authorisation required by the Council over expenditure may not be effective.

In addition, GST invoices/receipts are required as evidence to claim an input-tax refund on GST on all transactions greater than \$50. For the transactions that do not have sufficient supporting documentation, Council is not entitled to claim the GST paid on the transactions.

Management comment

We agree and have added a check to our month-end processes to ensure these things are picked up.

Master file changes

Council's financial system produces a master file changes report that is regularly reviewed. However, we noted that the review of the report is performed by a staff member who has access to make changes to the master file data.

We recommend that an independent person reviews the changes to the master file and signs the maintenance report as evidence of review.

Management comment

We believe our systems in this area do not need amending. Our system produces a report even if there have been no amendments to the Masterfile. The Accountant expects to see these reports in areas they are checking. Therefore, they can raise a concern when the file is not included in the information to be checked. If the file is changed by the Accountant, other staff have it as part of their procedures to run a Masterfile report from the date that staff member last ran one – therefore any changes will be picked up.

Revenue

Debt recovery policy

Our review of the debtors system identified that there is no formal policy in place for debt recovery. At present the debtors clerk follows an informal procedure which has developed over time. Formalising the existing process or developing a new debt recovery policy will allow the collection process to be more consistent.

We recommend that a formalised debt recovery policy is developed and distributed to the relevant staff members.

Management comment

We agree and will have a policy in place within 12 months.

Authorisation for raising invoices

We note that although Council has invoice request documentation, no authorisation is required to raise invoices.

We reviewed a sample of invoice request forms and noted that often the form was unsigned by the person requesting the invoice, making it difficult to identify who had raised the invoice.

We recommend the raising of invoices be approved by a staff member with delegated authority and that staff member sign the invoice request form as evidence of authorisation. This will help to ensure that there are no multiple invoices prepared and would allow managers to monitor what has or has not been invoiced.

Management comment

We agree and we will introduce this as a policy within the next 12 months.

Property, plant and equipment

Formal processes

As part of our review of internal controls we sought to gain an understanding of the system in place for recording additions, disposals and depreciation in the fixed asset register and general ledger.

We noted that, although system notes exist for the property plant and equipment system, these were written a number of years ago and have not been subsequently reviewed.

We recommend that management review and update the process and system documentation for property, plant and equipment.

Management comment

We agree and will undertake a review of these processes with a view to having them updated before 30 June 2011.

Infrastructural asset disposals

We found that the processing of disposals of infrastructure assets being replaced does not occur on a timely basis. The three-year valuation is used as a process to "wash up" the replacement of infrastructure assets. This process is not good practice. It effectively overstates the value of infrastructural assets in the financial statements between valuations.

We recommend that effective and timely processes are introduced that provide assurance that disposals of infrastructural assets are recorded in the correct period.

Management comment

Management does not consider this to be practical or cost-effective. Our Fixed Asset register is not structured in sufficient detail to allow us to deal with infrastructural assets in the manner suggested.

Investments

Council's investment policy identifies five asset classes in which it is authorised to invest. The five asset classes are:

- New Zealand Government or Government Guaranteed;
- Local Authorities where rates are used as securities;
- New Zealand registered banks,
- State owned enterprises; and
- Corporates.

We compared the investments held by Council against the authorised investment classes documented in the investment policy. We identified three investments that breached the investment policy: a \$250,000 investment in Deutsche Bank; a \$500,000 investment in Morgan Stanley; and a \$250,000 investment in Merrill Lynch.

We noted that the finance committee is aware of the breaches and has determined that they are held until such time as can be disposed of without a loss being incurred.

We recommend that Council review its investment portfolio and ensure that it is in accordance with its investment policy. Alternatively, the investment policy could be amended such that the current practice is consistent with the policy.

Management comment

We consider our quarterly reporting to the Finance Committee to be adequate and do not consider an amendment to the investment policy is required.

Bank reconciliations

We found that bank reconciliations had not been prepared on a timely basis for April and May 2010. For example, the April bank reconciliation was not completed until 21 May.

Bank reconciliations are an important tool for identifying and correcting any processing errors and minimising the risk of fraud. Reconciliations should be prepared and reviewed promptly to enable any errors or issues identified to be dealt with in a timely manner.

Management comment

We agree and changes will be put in place immediately.

Processing of cheques

We identified two issues related to how Council processes cheques:

- We found cheques that had been drawn but not processed in the general ledger. Some of the cheques were old, with one being dated November 2008 and another in August 2009. This creates a risk that unauthorised or inappropriate payments could be made. It also means that all transactions have not been appropriately recorded. Staff were subsequently able to identify what the expenditure related to and gathered appropriate tax invoices for the expenditure.
- We found that Council was unable to reconcile the general ledger to the list of unpresented cheques. This may have been due to cheques not being processed, as outlined above.

Both examples indicate that the controls in place over the management of cash can be improved. We recommend that management review their processes to minimise the risk of similar issues occurring in the future.

Management comment

We agree and changes will be put in place immediately.

Journals

We have reviewed the journal system and found that not all journals were checked or approved by a person independent from the preparer. The use of a review and approval process is a very important control in preventing the incorrect or improper use of journals. Implementing this process will considerably enhance the control environment.

We recommend that management urgently implement a formal review process.

Management comment

We agree and changes have been made.

Sector matters

We completed reviews on our areas of interest across all Local Authorities. Most of our findings have been incorporated in the relevant sections of this report. Our comments on the issues not already addressed elsewhere are as follows:

Audit Committees

Council does not have a formal audit committee. Council previously formally considered this and decided not to establish one. However, as outlined in section 4.1, we still believe that there would be some benefit in establishing an audit committee.

Council has established a finance committee. We understand that there are no formal terms of reference set up to manage the finance committee. We recommend that Council develops formal terms of reference for its audit committee, and finance committee, if separate. The terms should include the roles and responsibilities expected of an audit committee. The Auditor-General's good practice guide, *Audit Committees in the public sector*, sets out the expected roles and responsibilities of an audit committee.

Management comment

We agree and have recommended this to Council's Finance Committee.

Conflicts of interest

We remained alert for conflicts of interest in the course of our audit work. We found no conflicts to report to the OAG.

We also reviewed the progress made by Council in developing a formal interest's register. We have commented on this in section 2.1.

Possible LTCCP amendments

We remained alert for possible amendments throughout the year, particularly during the preparation of the annual plan. The Council amended its LTCCP to:

- amend the revenue and financing policy and the investment policy to allow interest and dividends to be offset against the general rate rather than the works and services rate; and
- set a new targeted rate for Eversley Reserve sewerage.

We audited the amendments and issued an opinion on the Statement of Proposal (SoP) on 17 May 2010.

Following consultation on the SoP the Council approved the amendments to its LTCCP on 25 June 2010. We reported on the adopted LTCCP amendment document on 30 June 2010.

We discussed with management the potential impact on Council and its proposed response arising from the national land transport programme. There was no significant impact and no LTCCP amendment was required.

Funding arrangements and procurement

Council does not have a procurement policy. We understand that management are developing a procurement policy. We commend this action and will follow up progress as part of our 2011 audit.

We do suggest that management incorporate the OAG's good practice guidelines, as outlined in the following reports:

- *Public sector purchases, grants and gifts: managing funding arrangements with external parties.*
- *Procurement guidance for public entities.*

Council governance role in completion of Council Controlled Organisation Statement of Intent

We considered whether Council has appropriate arrangements in place for effectively fulfilling their oversight responsibilities relating to Council Controlled Organisations (CCOs). We found that it does.

Transparency, Accountability and Financial Management (TAFM)

The TAFM changes were recently enacted by Parliament. However, there was no impact on the 2010 annual report.

Severance payments

Council made no severance payments during the year. Appropriate disclosure of this was made in the financial statements.

Treaty settlements and co-management

We have not been made aware of any new treaty settlements or co-management arrangements that impact on Council.

Matters raised previously

The current status of the matters that we raised in 2009 is included in Appendix 3.

Details of reviews on behalf of the Auditor-General

We completed the reviews required by the Auditor-General, as set out in our audit arrangements letter, and cleared them with appropriate members of the management team. Appendix 4 sets out the results of the reviews.

Current year misstatements	Assets	Liabilities	Equity	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Dr Land	63,388			
Dr Expenditure				21,129
Cr Capital Work in Progress	(84,517)			
Capital WIP recognised was for a project that will not go ahead. The WIP was made up of purchased land and other costs. The land would be capitalised; the other costs expensed. We have assumed a 25%/75% split between opex and capex. This error was not corrected on the basis of materiality.				
Total Known Misstatements	(21,129)			21,129

The unadjusted amount relates to work undertaken on the Fairlie Stormwater hazard protection works and was left in WIP. The total of \$84,517 should be capitalised to land with no impact on the income statement. This will be capitalised in the 2010/11 financial year.

Significant performance measures

Activity	Performance measure
Water supplies	Assess the level of E Coli in the drinking water supply
	Scheduled monitoring completed
	No failure to issue boil water notices when hazard identified
	No disruption exceeds 8 hours
	Normal duration of 90% of disruptions is less than six hours
	All resource consents conditions are complied with
Roading	The average roughness of urban roads as measured by NAASRA counts
	The % of measures exceeding 150 NAASRA counts
	The average roughness of rural roads as measured by NAASRA counts
	The % of measures exceeding 110 NAASRA counts
	Mackenzie's urban and rural sealed roads are smoother than the national average
	Emergency work response times
	On site within 1 ½ hours to begin reinstatement
Solid Waste	The number of compliant bags of waste put out for collection at the kerbside
	The percentage of solid waste from the Resource Recovery Parks diverted from landfill
	The sale of quality compost produced through the VCU using green waste and putrescible waste
Building control	To process 95% of building consents and project information memorandums within the statutory timeframe
	Accreditation maintained following the audit to occur in November 2009
Resource management	To process non-notified resource consents within the statutory timeframe of 20 working days
	To process LIM within statutory timeframe of 10 working days

Appendix 2: Status of recommendations made last year

Outstanding matters

Matter	Recommendation	Outcome
Sensitive expenditure policy		
We noted that Council does not have a formal policy that relates to sensitive expenditure.	We recommend Council develop a sensitive expenditure policy which is in line with the OAG good practice guide.	No progress has been made on developing a sensitive expenditure policy. Any policy developed should include expenditure incurred on credit cards. <i>Management will review its policies and make a decision before December 2011.</i>
Albury Water scheme		
Consistent with previous years, the management of Council's Albury water assets have been contracted to Albury Rural Water Supply Society Inc. The entity acts as an agent of Council and the transactions are consolidated into Council's financial statements. As part of the management agreement between the two parties, a set of audited accounts are to be provided for consolidation. However, this has not yet occurred. We accept that this is an area of low risk.	We recommend that Council amend this agreement (i.e. not to require audited accounts), so as to remove this inconsistency between the management agreement and the actual practice.	We discussed this matter with management and were told that the agreement had not been adjusted. <i>Management now understand the Albury Water Scheme will undertake an audit of its accounts, therefore we do not consider the agreement requires amendment.</i>
Property, plant and equipment – Physical stock take		
There are no procedures in place to complete an asset stock take on a periodic basis to confirm the existence and value of its assets.	Assets are reviewed periodically to provide assurance they are appropriately accounted for and consideration is given to performing cyclical stock takes to confirm the existence of assets.	No stocktake was completed in the 2010 financial year. <i>Management agrees and assuming this can be done in a cost-effective manner, will develop a procedure to undertake this.</i>
Debtors and payroll reconciliations		
Debtors and payroll reconciliations are being performed, but not independently reviewed.	These reconciliations are independently performed and reviewed. The reconciliations	There has been no change in this process.

Matter	Recommendation	Outcome
	should be appropriately signed off and dated by the persons performing the reconciliation and the review.	Management will institute an appropriate cost-effective procedure to ensure this happens.

Cleared matters

Matter	Recommendation	Outcome
Mackenzie Holdings Limited		
At the beginning of 2008, Council transferred back the airfield functions, assets and liabilities from Mackenzie Holdings Limited (MHL) with the intention to wind up MHL. MHL is still in existence, to allow Council to utilise the tax losses incurred by MHL in the future, if the Council undertakes any taxable activities. We noted that Council had not passed the resolution to make the MHL exempt under section 7 of the Act.	Council pass resolution to grant MHL an exemption under section 7 of the Act. We also recommend that for the next financial year, the directors of MHL deliver necessary declaration to the Registrar, stating that the company was a non-active entity so MHL does not have to prepare financial statements, provided that MHL was actually inactive for the financial year ending 2010.	Council exempted MHL on 6 October 2009. Additionally, the non-active declaration was delivered to the Registrar on 21 July 2010. <i>This has now been filed.</i>
Credit card expenditure		
We reviewed a number of credit card expenditure transactions for testing. We found that the credit card statements were not always reviewed on a timely basis. Statements between September 2008 and March 2009 were all reviewed in April 2009. We also noted that there were no supporting documentations for some of the credit card expenditures.	We recommend that credit card statements be accompanied with appropriate supporting documentation, and be reviewed, dated and signed in a timely manner.	We have commented on this matter in the main body of our report.
Members' interest register		
Council currently does not maintain a formal record of members' interests, hence no current member's interest register.	We recommended Council consider establishing an Interest register to record the business interest of each Councillor.	We have commented on this matter in section 2.1.
GSB Supply Corp		
Council is a member of GSB Supply Corp, which provides procurement services to New Zealand's Government and Business communities. The contract between Council and GSB states that 'goods and services supplied by Supply Corp 'are for the purpose of a business'. Council currently allows staff to utilise GSB for purchases for personal benefit. In our view these purchases are not in compliance with the contract.	We recommend Council: <ul style="list-style-type: none"> • review the contract in detail; • review the current practice; and • ensure the practice is in line with the contract. 	Council have revised the agreement and now staff are allowed to incur personal expenditure, at the Council's discretion.
Valuation of investment		
The Council holds special funds account that relate to the funds invested in Council's long term funds	We recommend Council consistently uses the fair value provided the Bancorp treasury	The investments were valued in 2010 using the fair value provided by

Matter	Recommendation	Outcome
<p>portfolio, which is managed by Bancorp. Bancorp provides a quarterly treasury report that provides the valuation of these funds.</p> <p>Council has calculated the capital value of the funds using a computer programme created by Deloitte called 'New Zealand Bill and Bond Calculator'. The fair value calculated using this programme was different to the fair value provided in the Bancorp treasury report, which subsequently has been adjusted by Council.</p>	<p>reports.</p>	<p>the Bancorp treasury reports.</p>
Accounting treatment for Downlands water supply		
<p>The investment held by Council in the Downlands Water Supply Scheme has been valued at 4% of the net asset value of the scheme per the Scheme's financial statement. The increase or decrease in investment is recognised in 'Share Revaluation Reserve' account.</p> <p>We reviewed this treatment in light of the agreement between Timaru DC, Waimate DC and Mackenzie DC, and NZ IAS 31 <i>Interest in Joint Ventures</i>.</p> <p>Council's treatment has resulted in overstatement of its Share Revaluation Reserve account since the transition to NZ IFRS. The amount is not material, but it is expected to get bigger every year as the increment gets accumulated.</p>	<p>We will re-visit the treatment as part of next year's audit and assess the appropriateness of the treatment.</p>	<p>The Downlands water supply was appropriately treated as a joint venture in the 2010 financial statements.</p>
Fraud policy		
<p>The Auditor-General expects every public entity to formally address the issue of fraud, and to have in place an appropriate policy on how to minimise fraud and how to deal with fraud if it occurs.</p> <p>We found that, while Council is aware of the risk of fraud occurring, it does not have a fraud policy in place.</p>	<p>We recommend that Council put in place a fraud policy.</p> <p>We also expect Council to train employees so that they understand their responsibilities under the fraud policy.</p>	<p>We have commented on this matter in section 2.2.</p>

Appendix 3: Details of reviews on behalf of the Auditor-General

Issue	Status/findings
Annual Report Adoption and Public Release Dates	<p>We have been asked to note the dates that the Council adopts its annual report, and makes the full and summary annual reports available to the public. This information has been forwarded to the OAG.</p> <p>We forwarded the dates that the documents were released to the OAG</p>
Local Authority Exemptions for CCOs	<p>We have been asked to advise the OAG on Council's use of Section 7 of the Act. Under section 7 of the Act, a local authority may exempt a "small" CCO from the accountability regime that applies to CCOs under that Act.</p> <p>We found that Mackenzie Holdings Limited had been exempted for a three-year period from 6 October 2009.</p>
Local Authorities emissions and measurement and reduction	<p>We have been asked by the OAG to gather information about the activities of local authorities in the area of emissions measurement and reduction with a view to obtaining baseline information for 2009-10.</p> <p>We forwarded the relevant information to the OAG.</p>