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

DRAFT 2009/2010 FINANCIAL STATEMENTS AND PROPOSED SIGN-OFF PROCESS

1. Purpose of Report

The purpose of this report is to obtain the agreement of the Subcommittee as to the proposed format and disclosures for the Council's 2009/10 financial statements and the associated sign-off process for those financial statements

2. Recommendations

Officers recommend that the Audit and Risk Management Subcommittee:

1. *Receives the information.*
2. *Notes that the proposed 2009/10 financial statements template has recently been reviewed by Audit New Zealand and that their comments/recommendations have been reflected in the template.*
3. *Notes that all new standards, amendments and interpretations which are applicable for the 2009/10 financial statements have been considered by officers (refer Appendix 1) and notes that we are not planning to early adopt any new standards, amendments and interpretations.*
4. *Approves the proposed format and disclosures for the 2009/10 financial statements subject to:*
 - (a) *consideration of the implications of any changes in NZ GAAP arising up to 30 June 2010 which may be required to be applied retrospectively;*
 - (b) *the determination and disclosure of the final results of operations, cashflows and financial position for the year ending 30 June 2010 (and any subsequent impact on the notes to the financial statements); and*
 - (c) *receiving final clearance from Audit New Zealand.*
5. *Approves the sign-off process and timetable for the 2009/10 financial statements (refer Appendix 2).*

3. Background

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

Council officers propose to prepare the 2009/10 Annual Report for adoption on 25 August 2010. In order to achieve this timeframe, a draft template has been prepared for the Subcommittee's review which identifies the proposed financial statement format and disclosures. This report also outlines the proposed sign-off process and timetable for the adoption of the 2009/10 Annual Report.

The template has recently been reviewed by Audit New Zealand as part of their financial statements audit for the year ending 30 June 2010 and their comments/recommendations have been incorporated.

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

4.1 Process

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

Throughout the year we consider amendments made to NZ IFRS and update the Subcommittee with any implications for the Council. A full listing of all new standards, amendments and interpretations which are applicable for the 2009/10 financial statements is shown in Appendix 1. Where the adoption of these new or revised standards is mandatory for the 2009/10 financial statements, any required changes have been included in the template. The Council is not proposing to early adopt any standards, amendments or interpretations.

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

4.2 Key changes in the financial statements template

The key changes to the financial statements include:

- The fair value hierarchy

The recent amendment to NZ IFRS 7: Financial Instrument Disclosures required the disclosure of the fair value of financial instruments using a fair value hierarchy.

We have therefore included additional disclosures within the financial statements template in Note 30: Financial Instruments. This change does not change the way in which financial instruments are measured. These additional disclosures are aimed to enable users of the financial statements to assess the methods and inputs used to develop fair value measurement.

- Continuing focus on “plain English”

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

- Notes to the financial statements
 - Split out prepayments and revenue in advance

In the prior year it was difficult to reconcile the assets and liabilities on the Statement of Financial Position through to the Financial Instruments note. The differences related to prepayments and revenue in advance. Neither of these items are financial instruments so, although they make up the total assets and total liabilities balances on the Statement of Financial Position, they were not included as part of “Financial Assets” and Financial Liabilities” in the note.

In order for the Statement of Financial Position to more easily be reconciled to the Financial Instruments note we have separated these out on the face of the balance sheet for the 2009/10 financial statements.

5. Significant areas of focus for the Financial Statements for the year ending 30 June 2010

Significant areas of focus identified to date as part of the preparation of the financial statements for the year ended 30 June 2010 are as follows:

- Reassessment of fair values / impairment testing

The Council revalues certain classes of property, plant and equipment on a rolling three year cycle. Revaluations are staggered over the three year period to spread the cost and workload involved. We are required to

review the off-cycle classes to ensure that the carrying value of these assets is not materially different from fair value.

There are no classes of property, plant and equipment due to be revalued as at 30 June 2010. Of the other classes subject to the revaluation model, infrastructure and library assets were last revalued at 30 June 2008 and operational land and buildings were last revalued at 30 June 2009.

We reviewed the off-cycle classes of property, plant and equipment, applying appropriate indices through discussions with valuation experts. We concluded that there is no indication that fair values have shifted materially since the last valuations were completed which would necessitate an off-cycle revaluation. This conclusion has been discussed with Audit New Zealand who is in agreement with our conclusion.

- Investment property revaluation

Investment properties comprise ground leases as well as land and buildings held for investment purposes (commercial rental or capital growth). In accordance with NZ IAS 40: Investment Property, these are revalued annually to market value and all changes in fair value are shown within the surplus or deficit. All investment properties (including those in the Wellington Waterfront Project), will be revalued as at 30 June 2010.

- Impairment of Assets

The Council is required to regularly consider impairment in accordance with NZ IAS 36: Impairment of Assets. Given the difficult economic climate over the last few years and its potential impact on asset values, this remains a particular area of focus for 2009/10. We are looking closely at all of our assets to ensure that we have appropriately reflected any impairment issues. At the next Subcommittee meeting we will provide further information on the overall impairment for the 2009/10 financial year.

- Measurement of investment in Civic Assurance – change in accounting policy

Civic Assurance is the trading name of New Zealand Local Government Insurance Corporation Limited, which provides insurance products and other financial services principally to New Zealand local government. The Council holds an 8.2% shareholding in this entity and has no present intention to sell. To better reflect both the intention to hold this asset for the long term and the value of this investment, the Council has renamed the “Available for sale” category to “Fair value through other comprehensive income” and changed the measurement basis accordingly. This represents a change in accounting policy since it has resulted in the basis of measurement changing from historical cost to fair

value. Any movement in fair value is taken to other comprehensive income.

This change has resulted in an increase in the value of the investment as at 30 June 2009 of \$1.059m. Of this, \$1.053m represents an adjustment to the opening balance, with a further fair value movement of \$0.06m for the 2008/09 financial year.

6. Year-end Financial Results

This report has focused on the template for the year-end financial statements and the disclosures. Any significant movements from budgeted results or issues arising will be reported to the Subcommittee during the scheduled year end meeting on 16 August 2010.

7. Proposed Sign-off Process for the 2009/10 Financial Statements

On the basis that the Subcommittee has been delegated the primary responsibility for the audit of the Council's financial statements, a proposed sign-off process and timetable has been developed in order to adopt the 2009/10 Annual Report. This is outlined in Appendix 2 to this report.

8. Conclusion

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

The attached financial statements template has been prepared for the Subcommittee's review and approval, as part of the overall sign-off process for the 2009/10 Annual Report.

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

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

Contact Officer: *Nicky Blacker – Manager, Financial Accounting*

Supporting Information

1) Strategic Fit / Strategic Outcome

This project supports Strategy 1: Governance: As per the Annual Plan, Governance includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.

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

Relates to C534: Committee and Council process.

3) Treaty of Waitangi considerations

There are no Treaty of Waitangi implications.

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

Not required.

b) Consultation with Maori

Not required.

6) Legal Implications

None.

7) Consistency with existing policy

This report is consistent with existing Wellington City Council policy.

APPENDIX 1

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE FOR THE 2009/10 FINANCIAL STATEMENTS

Standard with amendment / New standard	Application date	Nature of amendment	Impact for the Council
NZ IFRS 1	1 July 2009	Restructured NZ IFRS 1: First Time Adoption of NZ IFRS	Not applicable for the Council as it has already adopted NZ IFRS.
NZ IFRS 1	1 January 2010	Amendment to NZ IFRS 1: First Time Adoption of NZ IFRS. Additional exemptions for first time adopters.	Not applicable for the Council as it has already adopted NZ IFRS.
NZ IFRS 2	1 January 2009	Amendment to NZ IFRS 2: Share Based Payments. Vesting Conditions and Cancellations.	This is not applicable for the Council as it does not make share based payments.
NZ IFRS 2	1 January 2010	Group Cash-settled Share-based Payment Transactions	This is not applicable for the Council as it does not make share based payments.
NZ IFRS 3 and NZ IAS 27	1 July 2009	NZ IFRS 3: Business Combinations (revised) and NZ IAS 27: Consolidated and Separate Financial Statements (amended 2008)	This standard would apply to any future business combinations the Council enters into but has no effect on the 2009/10 financial statements.
NZ IFRS 4	1 January 2009	Amendment to NZ IFRS 4: Insurance Contracts. Scope of Insurance Activities and Differential Reporting Concessions.	The Council does not anticipate a significant impact on its financial statements.
NZ IFRS 7	1 January 2009	Amendment to NZ IFRS	The Council will have additional disclosure

		7: Financial Instrument Disclosures. Improving Disclosures about Financial Instruments.	requirements but this is unlikely to significantly change any of the Council's fair value measurements. These additional disclosures are aimed to enable users of the financial statements to assess the methods and inputs used to develop fair value measurement.
NZ IFRS 8	1 January 2009	NZ IFRS 8: Operating Segments	The Council, as a Public Benefit Entity is not required to comply with NZ IFRS 8 – Operating Segments.
NZ IFRS 8	1 January 2009	Amendments to NZ IFRS 8: Segment Reporting	The Council, as a Public Benefit Entity is not required to comply with NZ IFRS 8. The proposed amendment would not change this.
NZ IFRS 9	1 January 2013	NZ IFRS 9: Financial Instruments	Will affect the categories under which financial assets are classified, but will have no impact on the values currently reported in the Annual Report.
NZ IAS 1	1 January 2009	NZ IAS 1: Presentation of Financial Statements (revised)	While the preparation of this statement was not mandatory until the 2009/10 financial year, the Council chose to early adopt this revised standard.
NZ IAS 23	1 January 2009	NZ IAS 23: Borrowing Costs	The application of this standard by Public benefit entities (PBEs) has been deferred indefinitely. This continues to provide the Council with the option of expensing borrowing costs.
NZ IAS 24	1 January 2011	NZ IAS 24: Related Party Disclosures (revised)	The Council does not anticipate any impact on its financial statements.
NZ IFRS 1 and NZ IAS 27	1 January 2009	Amendments to NZ IFRS 1: First Time Adoption of NZ IFRS and NZ IAS 27: Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate	Not applicable for the Council as it has already adopted NZ IFRS.
NZ IAS 32	1 January 2009	Amendment to NZ IAS 32: Financial Instruments	The Council does not anticipate any impact on its financial statements.

		Presentation. Puttable Financial Instruments and Obligations Arising on Liquidation	
NZ IAS 32	1 February 2010	Proposed amendments to IAS 32: Financial Instruments: Presentation. Classification of Rights Issues	We note that this is not relevant to the Council as we do not currently issue shares.
NZ IAS 34	1 July 2009	Amendment to NZ IAS 34: Interim Financial Reporting. Scope	This is not applicable for the Council as it does not prepare interim financial statements and is therefore not required to apply NZ IAS 34.
NZ IAS 39	1 July 2009	Amendment to NZ IAS 39: Financial Instrument Recognition and Measurement. Eligible Hedged Items.	The Council does not anticipate any impact on its financial statements.
NZ IAS 39 & NZ IFRIC 9	30 June 2009	Amendment to NZ IFRIC 9: Reassessment of Embedded Derivatives and NZ IAS 39: Financial Instrument Recognition and Measurement. Embedded derivatives	The Council does not anticipate a significant impact on its financial statements.
NZ IFRIC 14	1 January 2011	Proposed amendments to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	We note that this is not relevant to the Council as we do not have a defined benefit plan.

NZ IFRIC 15	1 January 2009	NZ IFRIC 15: Agreements for the Construction of Real Estate	This is not applicable for the Council as it does not construct real estate, nor does the Council in a broader sense apply the construction contract model in IAS 11.
NZ IFRIC 16	1 October 2008	NZ IFRIC 16: Hedges of a Net Investment in a Foreign Operation	This is not applicable for the Council as it does not have any hedges of a net investment in a foreign operation.
NZ IFRIC 17	1 July 2009	Distribution of Non-cash Assets to Owners	The Council does not anticipate any impact on its financial statements.
NZ IFRIC 18	1 July 2009	Transfers of assets from customers	The Council receives vested assets which would fall under this interpretation but is already treating these assets in accordance with the requirements of NZ IFRIC 18, therefore the Council does not anticipate any impact on its financial statements.
NZ IFRIC 19	1 July 2010	Extinguishing Financial Liabilities with Equity	This is not applicable for the Council as it does not issue equity instruments to extinguish financial liabilities.
Various	1 January 2009	Annual improvements process – 2008	Various minor amendments and clarifications. The Council does not anticipate a significant impact on its financial statements.
Various	1 July 2009 or 1 January 2010	Annual improvements process – 2009	Various minor amendments and clarifications. The Council does not anticipate a significant impact on its financial statements.
Various	1 July 2010 or 1 January 2011	Annual improvements process – 2010	Various minor amendments and clarifications. The Council does not anticipate a significant impact on its financial statements.
Various	1 July 2009	NZ specific omnibus amendments (2009 – 01)	Various minor amendments and clarifications. The Council does not anticipate a significant impact on its financial statements.

APPENDIX 2

PROPOSED SIGN-OFF PROCESS AND TIMETABLE FOR THE 2009/10 ANNUAL REPORT

Date:	Action:
29 June 2010 (scheduled)	<i>Audit and Risk Management Subcommittee Meeting</i> Subcommittee to review and conditionally approve draft format for the 2009/10 financial statements and the proposed sign-off process.
26 July 2010	Audit New Zealand commence final audit fieldwork
4 August 2010	Consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2010, financial position as at 30 June 2010 and financial overview available for final internal review and management sign off.
16 August 2010 (scheduled)	<i>Audit and Risk Management Subcommittee Meeting</i> Subcommittee to review consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2010, financial position as at 30 June 2010 and financial overview, subject to final Audit New Zealand clearance. Subcommittee to also review Statements of Service Performance, report on CCOs and report on mana whenua partnership.
18 August 2010	Subcommittee to recommend adoption of 2009/10 financial statements to Strategy and Policy Committee. <i>Audit New Zealand to issue letter of comfort to Strategy and Policy Committee as to whether an unqualified, or qualified, audit opinion will be issued.</i>
25 August 2010 (scheduled)	<i>Special Strategy and Policy Committee Meeting</i> Committee to recommend adoption of 2009/10 financial statements to Council.
25 August 2010 (scheduled)	<i>Council Meeting</i> Council to adopt 2009/10 financial statements. Management Letter of Representation issued to Audit New Zealand. Audit New Zealand sign Audit Opinion. Media Release – Financial Results for the year ending 30 June 2010.
24 September 2010	Release of published Annual Report.

APPENDIX 3

DRAFT 2009/10 FINANCIAL STATEMENTS