

Federation of Wellington Progressive and Residents' Associations



C/- 134 Hanson St
Newtown
Wellington

Public participation of

The Federation of Wellington Progressive and Residents Associations

at the Audit and Risk Management Subcommittee meeting

on Tuesday, 6 December 2011

Jim Candiliotis - President

Good afternoon all,

I think this is the first time Tom (Secretary), Bernie (Treasurer) and I have come together to take advantage of the public participation portion of the Audit and Risk Management Sub-committee meeting.

So thanks for allowing us that opportunity.

Today we are here as the Federation of Wellington Progressive and Residents Associations, not as individuals.

The subject matter is something we have been discussing with a multitude of people for a lot of years, more in fact than I care to remember.

Mr Simpkins, you in particular, will be aware of the concerns we as Federation has held for some considerable time on the particular issue we've come to talk to you about today, in your previous capacity as a Deputy Auditor General.

I'll take you back 8 months to the 3rd of March this year when Bernie, on behalf of Federation, came before this committee and spoke to report 3 of that meeting. It was titled, Implications for Council of the New Proposed Financial Reporting Standards.

Recent events that we've been involved with has prompted us to come here to speak not only to report 3 of today's meeting but to other issues that there has been recent movement on.

A hand out will be provided after our public participation, for your consideration.

Enough from me, I'll now hand over to Bernie.

Bernie Harris - Treasurer

During the last 30 days I have attended four meetings in Wellington, none being with the W.C.C. except on 8 November as an observer from 10.30 a.m. Coincidentally, earlier that morning I had been at a meeting discussing "Keeping fraud at bay" with Lyn Provost, being the lead presenter. One of the subjects under discussion was related to 'procurement', which had been the subject of a 'public excluded' part of the SPC meeting that day. Jim, subsequently obtained a copy of the Power Point Presentation under L.G.O.I.M.A.

Three of those meetings were convened by Victoria University's Centre of Accounting, Governance and Taxation Research (CAGTR), the various panels of speakers being chaired by Professor Tony van Zijl.

The subjects and members of the panel of each seminar on 8th and 29th November, and 2nd of December are contained in the handout mentioned by Jim earlier.

The fourth meeting was the AGM of Transparency International NZ on 24th November at Price Waterhouse Cooper's office on The Terrace. Two interesting presentations were "Building effective business partnerships in China" and "New Zealand and the Corruption Perception Index: How is New Zealand CPI compiled and what can and can't be inferred from it"

Federation's interest today relates to the implications for council of the proposed Financial Reporting Standards which have been under discussion, we believe, since 2009. My involvement on this subject was duly included in the minutes of your meeting on 15 March this year. At that time I indicated that the concerns of Federation on that particular subject had been communicated to OAG since 2003, and the Minister of Revenue, Hon Peter Dunne since 2009.

On 25 August 2005, I addressed this Sub-committee on the subject of depreciated replacement cost of infrastructure assets in the Revenue and Funding policy, which is the basis for establishing the annual rates. There was clear evidence at the time that this was the source of double-counting of rates imposed on all ratepayers since its introduction. Despite considerable exchanges of correspondence since then between OAG, Hon Peter Dunne, the W.C.C. and Federation, every attempt to resolve this issue has failed. The subject is still under discussion with OAG at the present time.

Councilors present may also recall that on 31 August I made a submission to Council relating to NZ IFRS during which I mentioned that Jim and I had met with Peter Garty and Nicky and presented the evidence that causes the double-counting of rates, to which he stated "But we are required to follow NZ IFRS because everyone else does." Hence, one will understand why Federation believed it to be imperative that I attend the three meetings of CAGTR I have already mentioned.

At the first meeting on 8 November I sought a response from Lyn Provost as to Kevin Brady's final report to parliament regarding the unsuitability of NZ IFRS for public benefit entities. She referred to a recent publication "Removing the Baggage" (as yet unsighted) related to current complex reporting on Financial Statements.

At the second meeting on 29 November I sought comment from all panel members as to why compliance with the presentation of Financial Statements was inconsistent with the 'realities' of Public Benefit Entities. As Nicky Blacker was also in attendance, she was witness to their replies. They were enlightening.

At the meeting last Friday, 2 December I sought comment from all panel members and Professor van Zijl as to where the accountability rested for the adoption of NZ IFRS, which was only relevant to New Zealand and Australia? Under what guise had

there been the introduction of NZ International Financial Reporting Standards, when it was now admitted that they were not International at all? Who was responsible for effectively misrepresenting and misleading almost a generation of university graduates and the accounting profession in New Zealand? The reverberations of these questions will be monitored by Federation while the Consultation Paper is being evaluated by its 'constituents'.

It should therefore not come as a surprise to ARMS, being at the forefront of Federation's concerns to have the three senior members present in your deliberations of Report 3. Subsequently we would expect our participation today to be reflected in your recommendation to SPC. We would also expect that the necessary formal response to XRB from the Wellington City Council properly expresses the true belief of constituents coerced into questionable revenue collection of rates from improper financial reporting standards.

In conclusion, Federation has consistently offered its services, which in any way would improve the desirable engagement with Wellington's community of interests. We sincerely believe that it is only by mutual co-operation in a true spirit of accord that all ratepayers, the GWRC, visitors from other parts of NZ and abroad will absolutely and positively enjoy the experience. Anything less can only be seen as a failure by us all.

The handout also contains the supporting evidence of Federation's concerns being communicated widely since 2003. Our research of Hansard, re the Local Government and Official Meetings Act (L.G.O.I.M.A.), disclosed in its final comment by the then Minister that "It is the media where the ultimate protection of a free and open society rests." Consequently, the handout, with a copy of our presentation to you will be distributed later today.

We thank you for your attention and extend our warmest wishes for the Festive Season ahead.

The CAGTR cordially invites you to attend a **Business Links Seminar** entitled:

For-Profit Entities: the new Accounting Standards Framework proposals and their impact

Following the announcement in late September of the outcome of the Ministry of Economic Development's review of the Financial Reporting Framework, the External Reporting Board (XRB) has issued a Consultation Paper on the proposed General Purpose Financial Reporting requirements for For-Profit Entities. In order to stimulate discussion on these matters, the Centre for Accounting, Governance and Taxation Research has convened a panel to discuss the proposals. The panel will be chaired by Professor Tony van Zijl and the members are Michele Embling, John Hodge and Mark Hucklesby. Links to the two consultation papers are available as follows: [Ministry of Economic Development](#) and [External Reporting Board](#).

ONE STOP SHOP DOES NOT EXIST ANYWHERE GLOBALLY.



Michele Embling

Michele Embling, CA is a member of the External Reporting Board, and Chairman of the New Zealand Accounting Standards Board. She is the Auckland Managing Partner of PricewaterhouseCoopers and heads the technical function of the New Zealand firm providing key advice on complex financial reporting, statutory and regulatory reporting issues.

Why did N.Z. adopt IFRS if ONLY N.Z. & Australia (Australasia) CER was considered?

Michele was an integral member of the team that managed the adoption of IFRS in New Zealand. Michele was also a member of the New Zealand Institute of Chartered Accountants' (NZICA) working group that converted the IFRS to New Zealand equivalent standards (NZIFRS).

RDR - Redundant Disclosure Regime



Mark Hucklesby

Mark is Grant Thornton's National Technical Director and is the firm's financial reporting expert. His last 18 years have been spent working full-time on either creating, interpreting or commenting on internationally recognised standards in three business reporting domains: IFRS, XBRL and audit.

Reports are for end-users ONLY. What is role of legislators?

He has worked with many for-profit reporting entities to help them efficiently and effectively resolve financial reporting issues and tax. Mark has an excellent understanding of New Zealand's financial reporting requirements and the needs of users having previously been the Deputy Chair of the Financial Reporting Standards Board.

Reporting is hegemonia - users would call it boring



John Hodge

John Hodge CA, is Director, Technical Services at the New Zealand Institute of Chartered Accountants (NZICA). He is responsible for the provision of technical expertise, research and thought-leadership relating to accounting practice at NZICA.

Prior to working at NZICA John spent 14 years in public practice working for a "Big Four" firm in New Zealand and abroad. His experience primarily includes audits of large multi-national corporations, not-for-profit entities and privately held SMEs (including the use of US GAAP, IFRS and ISA PCAOB audit standards), IFRS consulting, due diligence, internal audit and internal control advisory.

How is 'accountability' applied?

Friday, 2 December 2011 from 7.30 am to 9.00 am

Victoria University of Wellington, Lecture Theatre 1 (GBLT 1), Government Buildings,
15 Lambton Quay, Wellington (Circular Building, Law School Courtyard)

The seminar will be preceded by a light breakfast in the foyer of GB LT 1 from 7.00 – 7.30 am.

This is a free seminar. For catering purposes kindly RSVP (acceptances only) by
Wednesday, 30 November 2011 to vanessa.borg@vuw.ac.nz or telephone 04 463 5550.

Subject: Second CAGTR Business Links Breakfast Seminar - Friday, 2 December 2011 - "For-Profit Entities: the new Accounting Standards Framework proposals and their impact"
From: Vanessa Borg <Vanessa.Borg@vuw.ac.nz>
Date: 21/11/2011 5:31 p.m.
To: Vanessa Borg <Vanessa.Borg@vuw.ac.nz>

****apologies for cross postings****

Dear everyone

The Centre for Accounting, Governance and Taxation Research (CAGTR) cordially invites you to a second Business Links Breakfast Seminar which will be held, this time round, on Friday, 2 December 2011 from 7.30am to 9.00am in Lecture Theatre 1 (GBLT 1), Government Buildings, 15 Lambton Quay, Wellington (Circular Building, Law School Courtyard).

The seminar is entitled: "*For-Profit Entities: the new Accounting Standards Framework proposals and their impact*" and will be presented by the following panel:

Michele Embling, Chairman of the NZ Accounting Standards Board
John Hodge, Director, Technical Services, NZ Institute of Chartered Accountants (NZICA)
Mark Hucklesby, Technical Director, Grant Thornton

Following the announcement in late September of the outcome of the Ministry of Economic Development's review of the Financial Reporting Framework, the External Reporting Board (XRB) has issued a Consultation Paper on the proposed General Purpose Financial Reporting requirements for For-Profit Entities. In order to stimulate discussion on these matters, the Centre for Accounting, Governance and Taxation Research has convened a panel to discuss the proposals. The panel will be chaired by Professor Tony van Zijl and the members are Michele Embling, John Hodge and Mark Hucklesby. Links to the two consultation papers are available as follows:
Ministry of Economic Development and External Reporting Board.

The invitation to the seminar is available at the following link [here](#).

Please RSVP attendance, for catering purposes, by latest Wednesday, 30 November 2011.

We would appreciate if you would forward the invitation to interested parties within your organisations.

Many thanks.

Kind regards
Vanessa

Vanessa Borg
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Ph. +64 4 463 5078
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<http://www.victoria.ac.nz/sacl/cagtr/>

The CAGTR cordially invites you to attend a Business Links Seminar entitled:

Public Benefit Entities: the new Accounting Standards Framework proposals and their impact

Following the announcement in late September of the outcome of the Ministry of Economic Development's review of the Financial Reporting Framework, the External Reporting Board (XRB) has issued a Consultation Paper on the proposed General Purpose Financial Reporting requirements for Public Benefit Entities. In order to stimulate discussion on these matters, the Centre for Accounting, Governance and Taxation Research has convened a panel to present the proposals and recent research into charity accounting which has informed the proposals. The panel will be chaired by Professor Tony van Zijl and the members are Geoff Connor, Carolyn Cordery and Tony Dale. Links to the two consultation papers are available as follows:
Ministry of Economic Development and External Reporting Board.

Compliance & reality



Carolyn Cordery

Carolyn Cordery, is a Senior Lecturer at Victoria University of Wellington and teaches accounting information systems and audit at undergraduate and postgraduate level. She is a member of the New Zealand Accounting Standards Board. Carolyn's research interests are focused on: Not for profit accounting and accountability. Current projects include grass roots sports' clubs financial vulnerability and she is also part of the Volunteer Management Research Programme.

She will present research on an analysis of New Zealand's charities' reporting.



Geoff Connor

Geoff Connor is a Chief Advisor in the Competition, Trade and Investment Branch of the Ministry of Economic Development. His main responsibilities are to manage complex long term policy projects and advise the government on corporate law and governance policy issues. He has managed the review of the financial reporting framework and continues to be closely involved with the project on auditor regulation. He has previously managed the Ministry's Business Law, Competition Policy and Intellectual Property policy teams.



Tony Dale

Tony is responsible for the strategic leadership of the External Reporting Board (XRB), management of the XRB staff team, and the provision of technical support to the XRB Board, NZASB and NZAuASB.

Tony has a background in standard setting and extensive experience and expertise in public sector financial management. He has also had an active involvement in the not-for-profit sector. Tony assisted the ASRB with development of the new accounting and assurance frameworks.

Tuesday, 29 November 2011 from 7.30 am to 9.00 am

Victoria University of Wellington, Lecture Theatre 2
Rutherford House, 23 Lambton Quay, Wellington

The seminar will be preceded by a light breakfast on the Ground Floor of Rutherford House from 7.00 – 7.30 am.

This is a free seminar. For catering purposes kindly RSVP (acceptances only) by Thursday, 24 November 2011 to you@ca.govt.nz or telephone 04 463 5550.

Executive Summary

This Consultation Paper outlines proposals for the accounting standards framework for public benefit entities (PBEs). The Paper was initially prepared by the Accounting Standards Review Board (ASRB) and has been endorsed by the External Reporting Board (XRB Board) for issue for consultation.

The Consultation Paper has been prepared in the context of the XRB Board's decision to adopt a multi-standards approach as outlined in a separate Position Paper¹.

The XRB Board proposes that the definition of PBEs contained in existing NZ IFRS be retained in the new accounting standards framework. It also proposes that public sector PBEs be defined by reference to the definition of public entities in the Public Audit Act 2001, and that not-for-profit (NFP) entities be defined as all PBEs other than public sector PBEs.

Respondents to the ASRB's Discussion Document issued in September 2009² indicated strong support for using tiers to help match the costs and benefits of reporting. The XRB Board proposes that there be three PBE tiers. The third tier will cover the large number of small-sized PBEs that will be required to report under the Government's recently announced financial reporting framework³.

The majority of respondents did not agree with the Discussion Document suggestion that different tier thresholds be established for public sector and NFP entities. This feedback was considered and the XRB Board now proposes that the same size thresholds, based on (operating) expenses, should apply to all PBEs. It proposes that Tier 1 comprise entities with expenses over \$30 million; Tier 2 comprise entities with expenses between \$2 million and \$30 million; and Tier 3 comprise entities with expenses under \$2 million. The Government's financial reporting framework allows NFP entities with expenses under \$40,000 to report on a cash basis - these entities would comprise a sub-tier within Tier 3.

In addition, the XRB Board proposes that all entities that levy coercive revenue should be allocated to Tier 1 regardless of their size in order to reflect the high level of public accountability they have to taxpayers or ratepayers. The XRB Board also favours including all PBE issuers in Tier 1, again to reflect the accountability of such entities.

The XRB Board proposes that a set of NZ PBE Accounting Standards based on International Public Sector Accounting Standards (IPSAS) be developed for application by PBEs. However, the XRB Board considers it premature to be confident that the risks surrounding the adoption of "pure" IPSAS identified in the Discussion Document and commented on by a significant number of respondents have been adequately mitigated. The XRB Board therefore proposes that the IPSASs included in the NZ PBE standards should be able to be modified as appropriate for New Zealand as part of the development of the NZ PBE standards. They would also be modified to address NFP user needs.

In addition to modified IPSAS, the NZ PBE Accounting Standards could also include other standards to address topics not covered (or covered appropriately) by IPSAS. This would include existing domestic standards (modified as appropriate) such as FRS-42 *Prospective Financial Statements*. Over time these may be expanded to include, for example, a standard covering service performance reporting should an IPSAS on that topic not be developed in the medium term.

The XRB Board proposes that the full NZ PBE Accounting Standards apply to Tier 1 entities, and that a reduced disclosure requirements (RDR) version apply to Tier 2. A RDR approach involves using the same recognition and measurement as required by the full standards but with reduced disclosures. This differs from the current Differential Reporting Framework approach which has some recognition and measurement differences as well disclosure concessions.

The XRB Board proposes that PBE Tier 3 entities should prepare GPFR in accordance with a simple format reporting approach. This was suggested in the Discussion Document and was strongly supported by respondents. The simple format reporting would be based on the same recognition and measurement

¹ The Position Paper is entitled "Accounting Standards Framework: A Multi Standards Approach" and is available on the XRB website:

² The discussion document is entitled "Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting" and is available on the ASRB website:

³ This is available on the MED website:

as Tier 1 and 2 but possibly with some concessions for Tier 3 entities to reflect the simplified nature of their requirements.

The XRB Board proposes that the target date for public sector PBEs to adopt the NZ PBE Accounting Standards be 1 July 2013; and the target date for adoption by NFP entities be 1 July 2014, with early adoption from 1 July 2013. These proposals are subject to the results of the consultation process, and ability of the New Zealand Accounting Standards Board's (which is a sub-board of the XRB), to develop, consult on and promulgate the PBE Accounting Standard by the third quarter of 2012. The XRB Board considers this a challenging timeline but one that the XRB should target.

→ The XRB Board is seeking comments from constituents on the proposals outlined in this Consultation Paper. The deadline for submissions is Friday 16 December 2011.

Summary of Questions for Respondents

1. Do you agree that public sector PBEs should be defined by reference to the definition of public entities in the Public Audit Act 2001? If not what alternative would you suggest and why?
2. Do you agree that not-for-profit PBEs should be defined as all PBEs other than public sector PBEs? If not what alternative would you suggest and why?
3. The proposed PBE tier framework incorporates feedback from respondents to the Discussion Document Proposals. Are there any other factors not already considered that you think should be? If so please outline them.
4. Do you agree that all PBE issuers should be allocated to Tier 1 regardless of their size; or do you think that PBE debt issuers that would not otherwise be in Tier 1 should be able to be in Tier 2 but be required to comply with relevant Tier 1 requirements, particularly relating to financial instruments, to ensure that the needs of their users are met?
5. Taking the XRB Board's decision to adopt a multi-standards approach as a given, do you agree that a suite of NZ PBE standards that use IPSAS as its base, but which are modified:
 - for any recognition, measurement or disclosure matters considered inappropriate in the New Zealand context; and
 - to make them relevant, applicable and understandable in the NFP contextbe adopted at this juncture (rather than pure IPSAS)? If not what alternative approach would you suggest and why?
6. Do you agree that the same recognition and measurement requirements should apply to all tiers, subject to the possibility of some concessions for Tier 3 entities to reflect the simple nature of their requirements? If you do not agree, please identify the specific recognition and measurement requirements that you think should differ between tiers.
7. Do you agree that a Reduced Disclosure Requirements version of the full NZ PBE Accounting Standards should apply to Tier 2 entities? If not what alternative approach would you suggest and why?
8. Are there any other matters relating to the accounting standards for PBEs that have not already been considered by the XRB Board that you think it should consider? If so please outline them.
9. Do you agree that (a) all public sector PBEs should be required to adopt the NZ PBE Accounting Standards in the same financial year; and (b) the target date for this adoption should be the financial year beginning 1 July 2013? If not what alternative would you suggest and why?
10. Do you agree that the target date for NFP entities to compulsorily adopt the NZ PBE Accounting Standards should be financial years beginning on or after 1 July 2014, with early adoption from 1 July 2013? If not what alternative would you suggest and why?

Who and what consistency in responses determines the standard for adoption by 2014?

1. Introduction

1.1 Purpose of this Consultation Paper

1. In September 2009 the Accounting Standards Review Board (ASRB) issued a discussion document outlining a proposed new accounting and assurance standards framework for general purpose financial reporting in New Zealand (the Discussion Document)⁴. That document accompanied a Ministry of Economic Development (MED) discussion document which outlined a proposed new financial reporting framework⁵.
2. Submissions on the Discussion Document closed at the end of January 2010 and seventy-six submissions were received⁶. During 2010 the ASRB considered in depth the feedback received, the evolving trans-Tasman and international accounting standards environment, and the accounting standards framework options.
3. After much consideration and deliberation the ASRB concluded that user needs in the future cannot be adequately addressed by a single set of accounting standards applying to all entities required to prepare General Purpose Financial Reports (GPFR) under the framework proposed by the MED. Accordingly the ASRB concluded that the new accounting standards framework should consist of two sets of accounting standards: one applied by entities with a for-profit objective; and another applied by entities with a public benefit objective. This conclusion has been endorsed and confirmed by the External Reporting Board (XRB Board)⁷. An explanation of the rationale underlying this decision is provided in a separate Position Paper entitled "Accounting Standards Framework: A Multi Standards Approach"⁸.
4. This Consultation Paper was initially prepared by the ASRB and has been endorsed by the XRB Board for issue for consultation. It outlines the XRB Board's proposals in relation to the accounting standards framework for public benefit entities (PBEs). A separate consultation paper outlines proposals for the accounting standards framework for for-profit entities⁹.
5. This Consultation Paper has been developed for consultation rather than discussion purposes. Accordingly it contains specific proposals. The XRB Board is seeking feedback on these proposals from constituents. That feedback will be considered by the XRB Board and it is anticipated that a final decision will be made by the end of the first quarter of 2012.

1.2 Definitions

Public Benefit Entity

6. XRB Standard A1 contains the following definition of a PBE:

each agreed?

"A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders."¹⁰

*What % response if conclusive?
Difference between central and local government?*

⁴ The discussion document is entitled "Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting" and is available on the XRB website:

⁵ The MED document is entitled "The Statutory Framework for Financial Reporting" available on their website:

⁶ A high level summary of respondent's views is available on the ASRB website at:

⁷ In doing so the Board took account of the anticipated final form of that framework, now reflected in the Government's announcement.

⁸ This is available on the XRB website:

⁹ This paper "Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities" is available on the XRB website:

¹⁰ Appendix A, External Reporting Standard A1: Application of Accounting Standards, External Reporting Board.

7. This definition was adopted from NZ IAS 1 *Presentation of Financial Statements* and is generally accepted and well understood. This being the case the XRB Board proposes to retain this definition (and the related application guidance set out in Appendix A to NZ IAS 1) in the new accounting standards framework. **GARP?**
8. As outlined in Section 3 of this Consultation Paper, the XRB Board envisages slightly different variations of the NZ PBE accounting standards applying to public sector PBEs and not-for-profit (NFP) PBEs. It is therefore necessary to also define these two sectors. This needs to be done in a way that allows entities to self-determine their sector on the basis of defined criteria.
9. The XRB Board considers the distinction between public sector and NFP PBEs to be useful but only as a general device to enable the targeting of requirements to entities to better meet user needs. Accordingly the XRB Board intends to use the distinction intelligently to identify user information requirements, rather than as a definitive sectoral split.

Public Sector

10. It is commonly accepted that the Auditor-General is responsible for auditing all public sector organisations (although some audits may be contracted out). The Auditor-General's mandate is therefore generally accepted as being synonymous with what comprises the public sector. The XRB Board proposes to use this mandate to define the public sector.
11. The Public Audit Act 2001 defines entities that are subject to audit by the Auditor-General as "public entities". The legislative definition is provided in the Appendix to this paper. This definition is all encompassing apart from the fact that it excludes the Audit Office itself as it is independently audited. For the purposes of the accounting standards framework definition the Office of the Auditor-General and other Offices of Parliament would need to be included.
12. The XRB Board therefore proposes that public sector PBEs be defined as:
- "Public entities as defined by the Public Audit Act 2001 that are PBEs, and all Offices of Parliament."*

NFP Sector

13. Having established which entities are public sector PBEs, all other PBEs must be in the NFP sector. The XRB Board therefore proposes that NFP PBEs be defined as:
- "All PBEs other than public sector PBEs".*

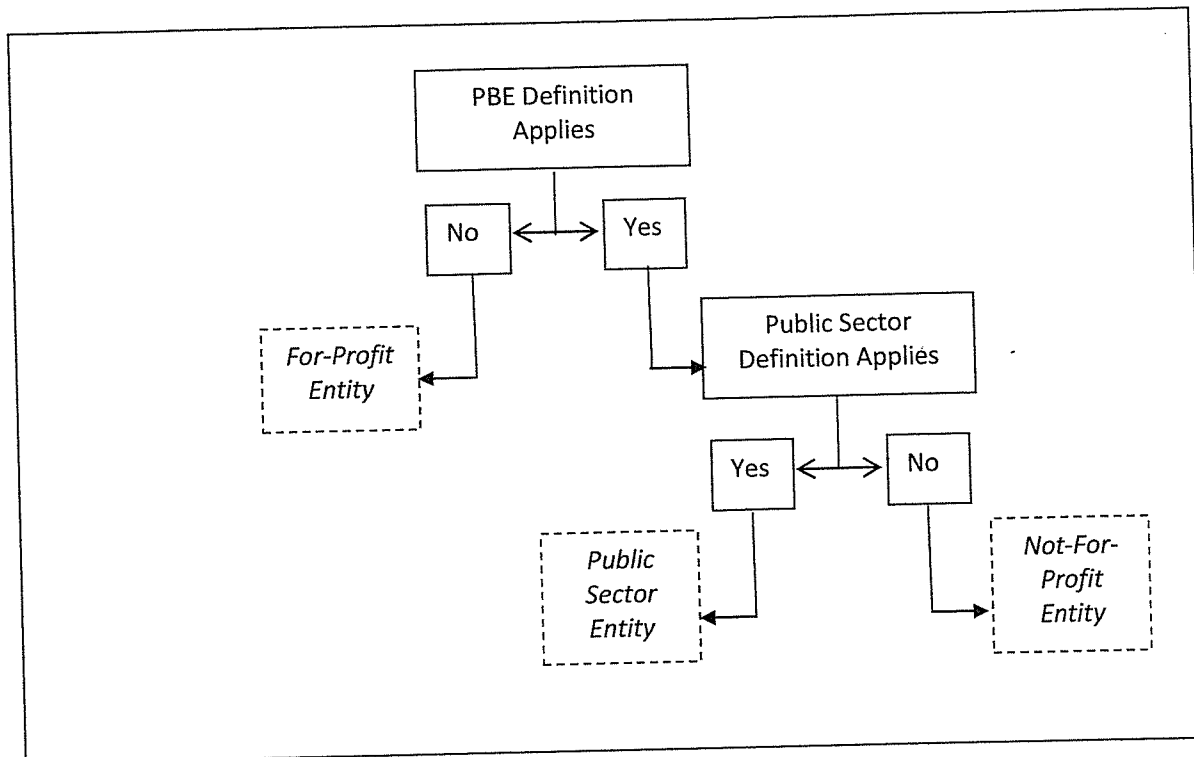
Summary of Approach

14. The approach to defining which entities fall into which sector is summarised in Figure 1 below.
15. The accounting standards framework outlined in this Consultation Paper is based on the assumption that the financial reporting framework recently announced by the Government¹¹ will proceed and be reflected in amendments to the Financial Reporting Act 1993 and/or other relevant legislation.
16. The financial reporting framework requirements for public benefit entities to prepare GPF¹¹ are summarised in Table 1. Any entity may 'opt-up' to a higher level of requirements, and any entity not required to report may 'opt-in' to the reporting requirements.
17. An important element of the Government's reporting framework is the allowances made for small and micro not-for-profit entities. Statutory provision will be made for entities with operating expenditure less than \$40,000 to prepare GPF¹¹ on a cash basis – even though this will not

¹¹ This is available on the MED website:

comply with generally accepted accounting practice (GAAP). All other entities will be required to prepare GAAP compliant, accrual-based financial reports. This distinction is to recognise the relative costs of preparing GPFR for micro entities.

Figure 1: Definition Decision Tree



1.6 Trans-Tasman Harmonisation

18. In developing the PBE accounting standards framework, careful consideration has been given to trans-Tasman harmonisation issues. The XRB Board recognises that there is some value in establishing a common New Zealand-Australia approach to PBE reporting, especially from a standard setting efficiency point of view. However, unlike for-profit entities, the XRB Board is not aware of any PBE entity that has reporting obligations in both jurisdictions. This being the case, the benefits to PBE reporting entities arising from harmonised standards are relatively limited.
19. As outlined in the multi-standards Position Paper, the XRB Board considers the most important issue for the PBE accounting standards framework is for it to address the needs of users in the sector. The XRB Board has concluded that the development of a set of NZ PBE accounting standards based on modified International Public Sector Accounting Standards (IPSAS) is more likely to achieve this, especially over the medium term, than is one based on International Financial Reporting Standards (IFRS).
20. The current Australian approach involves using IFRS as the base for reporting by PBEs, with modifications as appropriate. Although the Financial Reporting Council and the Australian Accounting Standards Board (AASB) have indicated a medium-term aspiration to adopt IPSAS, there is no intention to do so in the short-term.
21. As outlined in the multi-standards Position Paper, the XRB Board considers that it is appropriate for New Zealand to move to NZ PBE standards based on modified IPSAS at this point in time. The XRB Board's view is that the (relatively limited) harmonisation benefits forgone will be more than offset by the greater user needs met through the adoption of a framework based on modified IPSAS.

Subject: FW: Request 009 Last Tuesday
From: Federation <fwrpa@paradise.net.nz>
Date: 24/11/2011 3:52 p.m.
To: complaint@ombudsmen.govt.nz

Hello, attached are two documents provided by way of a LGOIMA request.

Given the headings and vagueness of what it applies to I would ask that the obscured information be reviewed..

Jim Candiliotis
Chairperson
Federation of Wellington
Progressive and Residents Associations

(04) 970 6481
(027) 443 5614



From: Chris Brown [mailto:Chris.Brown@wcc.govt.nz]
Sent: Thursday, 24 November 2011 9:50 a.m.
To: 'Federation'
Subject: RE: Request 009 Last Tuesday

Hello Jim,

thank you again for the below request, and for your patience while the information was collated and assessed.

Please find attached a letter of response to your request, from the Council, and a copy of the presentation document.

If you have any questions, please contact me.

kind regards

Chris
Chris Brown
Issues Resolution Office
Wellington City Council
101 Wakefield St
PO Box 2199, Wellington
P (04) 801 3479
Website: www.wellington.govt.nz

From: Federation [mailto:fwrpa@paradise.net.nz]
Sent: Thursday, November 10, 2011 8:34 AM
To: Chris Brown
Subject: Request 009 Last Tuesday

Good morning Chris, a follow up to my phone message of last Tuesday 10:40 am.
Could you please provide the presentation presented at this time to members of the SPC committee. The subject matter was procurement and came in the form of a power point presentation by three council officers. The power point presentation and any speech notes are requested.
Can I have them in electronic form please.

Background for the request, while I'm not required to explain the reason for my request, in this case I will. The Federation, that morning, attended a meeting with The Auditor General, The Police, The serious Fraud Office, Transparency International and Price Waterhouse Cooper. The subject matter was fraud in Government and Local Government of which one part was Procurement.

Jim Candiliotis
Chairperson
Federation of Wellington
Progressive and Residents Associations

(04) 970 6481
(027) 443 5614

23 November 2011

J Candiliotis
6 Bancroft Terrace
Newlands
Wellington
6037

Dear Jim

Thank you for your telephoned and emailed request, regarding the presentation made under 'Public Excluded' at the pre-SPC meeting on 8 November 2011.

In your request, you asked for a copy of the report, and also any speech notes that the presenter(s) had.

Please find a copy of the presentation "Wellington City Council Procurement Presentation 8 November 2011" attached.

Some figures in the presentation have been obscured, under the Local Government Official Information and Meetings Act (LGOIMA) 1987, section 7(2)(i) – 'to enable the Council to carry on, without prejudice or disadvantage, negotiations'.

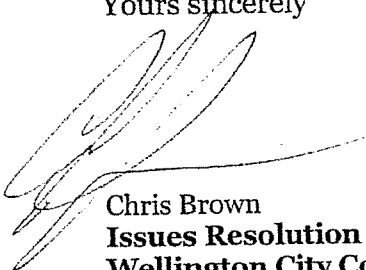
The release of the obscured figures would remove the negotiating leverage the Council has with incumbent or future suppliers of the services indicated. Where the Council would look to negotiate more favourable savings than those indicated, suppliers would have visibility of the projected savings targets. As such, there would be reluctance on their part to move outside of those figures. This would impact on the Wellington public, i.e.; these savings could be used to progress other projects that are not currently funded or are programmed for out years.

The presenters did not have any speech notes, speaking from the PowerPoint.

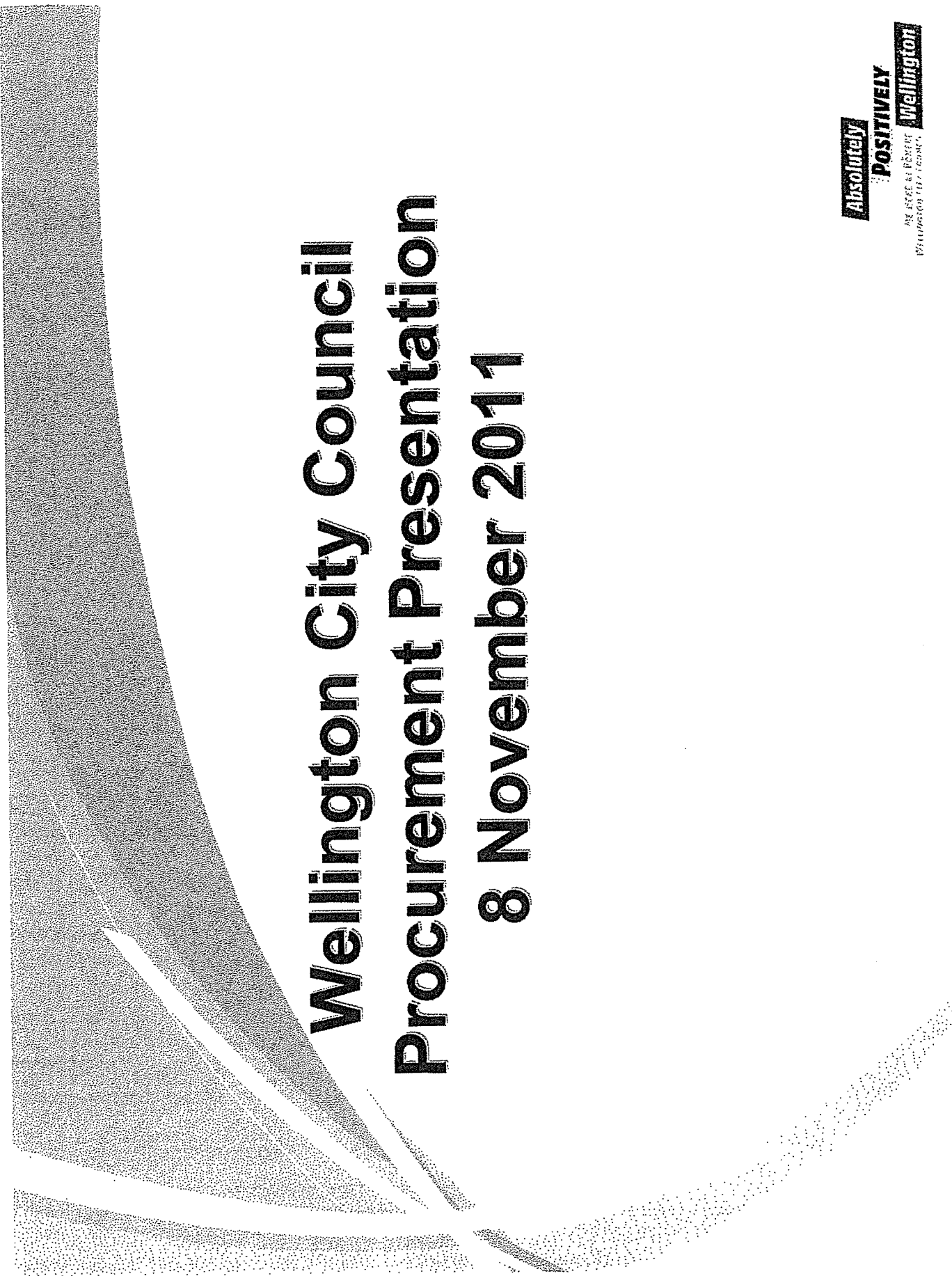
If you disagree with the decision to withhold information, you can apply in writing to the Ombudsman to have the decision investigated and reviewed under section 27 (3) of the Local Government Official Information and Meetings Act 1987.

Please contact me if you have any questions

Yours sincerely



Chris Brown
Issues Resolution Office
Wellington City Council
Ph: (04) 801 3479
Email: chris.brown@wcc.govt.nz



Wellington City Council Procurement Presentation 8 November 2011

Subject: Re: Reminder: Invitation to Fraud Launch seminar - Nov 8 Wellington; Nov 9 Auckland

From: Bernie Harris <btharri@clear.net.nz>

Date: 6/11/2011 7:41 p.m.

To: Kathrine Rice <Kathrine.Rice@oag.govt.nz>

Trust this reply is not too late. It is my intention to attend the seminar from 8.30 a.m. but not the breakfast.

Thank you for the invitation

Bernie

On 1/11/2011 9:53 a.m., Kathrine Rice wrote:

Dear everyone

The Centre for Accounting, Governance and Taxation Research (CAGTR) and the Office of the Auditor-General (OAG) cordially invite you to a Business Links Breakfast Seminar on:

Tuesday, 8 November 2011 from 8.30am to 10.00am in Rutherford House, Lecture Theatre 1, Victoria University of Wellington, 23 Lambton Quay, **Wellington**
and/or

Wednesday, 9 November 2011 from 7:30am to 10:00am in Caseroom 3, Level 0, Owen G Glenn Building, The University of Auckland
Business School, 12 Grafton Road, **Auckland**

The seminar is entitled: "*Cleanest public sector in the world: Keeping fraud at bay*" and will be presented by the following panel:

Wellington -

Lyn Provost, Controller and Auditor-General of New Zealand

Suzanne Snively, Director, Transparency International NZ

Malcolm Burgess, Assistant Commissioner, New Zealand Police

Adam Feeley, Chief Executive, Serious Fraud Office

Alex Tan, Director Forensic Services, PricewaterhouseCoopers

New Zealand consistently ranks well in fraud and corruption surveys. To gain a better insight into fraud awareness, prevention, and detection in our public sector, the Office of the Auditor-General carried out a unique survey of almost 1500 people working in the public sector about their perceptions and practices in detecting and preventing fraud. This seminar marks the launch of the results of the survey.

Or if you would rsvp to me; kathrine.rice@oag.govt.nz

Submission to Wellington City Council, Wednesday, 31 August 2011

Subject: NZ IFRS

Your Worship and Councillors

It was suggested that instead of attending this evening, the Report of the Audit and Risk Management Sub-committee of 22 August 2011 was being presented to the SPC at 1.00 p.m. today, and that may be the better meeting to make my submission.

However as I was at the ordination(?) of the Governor-General, Major-General Jerry Mateparae at that time, this would be the only time to comment before two recommendations were to be proposed and vote upon:

- 1 That the Council confirm the Statement of Accounting Policies, as contained in the financial statements, for the WCC and Group for the year ended 30 June 2011; and
- 2 That the Council adopt the Annual Report for the WCC and Group for the year ended 30 June 2011.

I therefore considered it to be important that you be reminded of two previous occasions when important financial situations had arisen and been drawn to your attention, and an article in the Dominion Post last Wednesday, 24 August, subsequent to the ARMS meeting of Monday, 22 August 2011.

- 1 SPC Agenda, 10 March 2009, Report 9, page 6 re Infrastructure assets, optimised depreciated replacement cost, and depreciation, which caused double counting for rating purposes; and
- 2 An article in the Dominion Post of Wednesday, 25 February 2009:
Auditor General, Kevin Brady frustrated at accounting complexities
"The heart of it is that they (IFRS) are designed for major corporates, of which they do not have a lot in New Zealand. They are not designed for the public sector.
The whole purpose of accounting is to produce simple information for people to make decisions, and I think we have lost that." and
"We are so disappointed with the way they (ASRB) are going about it, that we have withdrawn our staff from that committee."

Jim Candiliotis and I have met with Peter Garty and presented evidence that causes the double-counting. I quote "But we are required to follow NZ IFRS." Following blindly, we would suggest, is not consistent with IAS - International Accounting Standards, nor IPSAS - International Public

Sector Accounting Standards.

I personally have found the SPC Report relatively incomprehensible, and I have over 50 years accounting experience.

Before voting tonight I trust that you have all had sufficient explanation of the Report and Financial Statements to enable a simple explanation to your constituents, when asked.

079/11C **APOLOGIES**
(1215/11/IM)

NOTED:

There were no apologies.

080/11C **CONFIRMATION OF MINUTES**
(1215/11/IM)

Moved Mayor Wade-Brown, seconded Councillor Coughlan, the motion that Council approve the minutes of the meetings held on Wednesday 25 May 2011 and Wednesday 29 June 2011, having been circulated, that they be taken as read and confirmed as an accurate record of those meetings.

The motion was put:

Voting for: Mayor Wade-Brown, Councillors Ahipene-Mercer, Best, Cook, Coughlan, Eagle, Foster, Gill, Lester, McKinnon, Marsh, Morrison, Pannett, Pepperell and Ritchie.

Voting against: Nil.

Majority Vote: 15:0

The motion was declared CARRIED.

RESOLVED:

THAT Council:

1. *Approve the minutes of the meetings held on Wednesday 25 May 2011 and Wednesday 29 June 2011, having been circulated, that they be taken as read and confirmed as an accurate record of those meetings.*

081/11C **PUBLIC PARTICIPATION**
(1215/11/IM)

NOTED:

1. Bernie Harris addressed the meeting regarding Report 4 - Strategy and Policy Committee, Meeting of Wednesday 31 August 2011, Report of the Audit and Risk Management Subcommittee meeting of Monday 22 August 2011, 2010/2011 Financial Statements and Statements of Service Intent.

proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Where there is no market related evidence for an asset, fair value is determined by optimised depreciated replacement cost.

Specific measurement policies for categories of property, plant and equipment are shown below:

Operational Assets

Plant and equipment and the Civic Centre complex are measured at historical cost.

Library collections are valued at depreciated replacement cost on a three-year cycle by the Council's library staff in accordance with guidelines released by the New Zealand Library Association and the National Library of New Zealand.

Land and buildings are valued at fair value on a three-year cycle by independent registered valuers.

Restricted Assets

Art and cultural assets (artworks, sculptures, and statues) are valued at historical cost. Zoo animals are stated at estimated replacement cost. All other restricted assets (buildings, parks and reserves and the town belt) were valued at fair value as at 30 June 2005 by independent registered valuers. Council has elected to use the fair value of other restricted assets at 30 June 2005 as the deemed cost of the assets. These assets are no longer revalued. Subsequent additions have been recorded at historical cost.

Infrastructure Assets

Infrastructure assets (roading network, water, waste and drainage reticulation assets) are valued at optimised depreciated replacement cost on a three-year basis by independent registered valuers. Infrastructure valuations are based on current quotes from actual suppliers. As such, they include ancillary costs such as breaking through seal, traffic control and rehabilitation. Between valuations, expenditure on asset improvements is capitalised at cost.

Infrastructure land is valued at fair value on a three-year basis.

Land under roads, which represents the corridor of land directly under and adjacent to the Council's roading network, was valued as at 30 June 2005 at the average value of surrounding adjacent land discounted by 50% to reflect its restricted nature. Council elected to use the fair value of land under roads at 30 June 2005 as the deemed cost of the asset. Land under roads is no longer revalued. Subsequent additions are capitalised at historical cost.

The carrying values of revalued property, plant and equipment are reviewed at each balance date to ensure that those values are not materially different to fair value.

Revaluations

The result of any revaluation of the Council's property, plant and equipment is recognised within other comprehensive income and credited or debited to the asset revaluation reserve for that class of property, plant and equipment. Where this results in a debit balance in the reserve for a class of property, plant and equipment, the balance is included within the surplus or deficit. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised within the surplus or deficit will be recognised firstly, within the surplus or deficit up to the amount previously expensed, and then secondly recognised within other comprehensive income and credited to the revaluation reserve for that class of property, plant and equipment.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount.

Impairment

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are reported within the surplus or deficit, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease and recorded within other comprehensive income.

Simpkins to chair new reporting board

COMMERCE Minister Simon Power has announced the members of the External Reporting Board (XRB), which will supersede the Accounting Standards Review Board (ASRB) on July 1 with a broader range of powers.

The XRB will be chaired by current ASRB chairman Kevin Simpkins.

Other ASRB members appointed to the XRB include

chartered accountant Simon Carey, ASRB deputy chair Michele Embling, Graeme Mitchell, Bell Gully litigation partner Ralph Simpson, and Treasury chief accountant Ken Warren.

Other XRB board members are Neil Cherry, who is chair of the Institute of Chartered Accountants professional standards board, and Securities Commission member Annabel Cotton. NZPA

Subject: RE: XRB - External Reporting Board
From: "Peter Dunne (MIN)" <Peter.Dunne@parliament.govt.nz>
Date: Wed, 27 Apr 2011 09:01:20 +1200
To: Bernie Harris <btharri@clear.net.nz>

Bernie,

*When do we confront NZICA re depreciation of
revalued infrastructure?*

After our last discussion on this subject I sought advice on where responsibility for the new Board lies. The clear response that I received was that it lies with NZICA, to whom inquiries would best be directed.

Hon Peter Dunne
MP for Ohariu /Leader of UnitedFuture
Minister of Revenue/Associate Minister of Health
Visit our website at www.unitedfuture.org.nz

-----Original Message-----

From: Bernie Harris [<mailto:btharri@clear.net.nz>]
Sent: Tuesday, 19 April 2011 10:41 am
To: Peter Dunne (MIN)
Cc: Jim
Subject: XRB - External Reporting Board

Dear Peter

Last year after the Inaugural Meeting of the new Wellington City Council, I mentioned to you the Advertisement for the Board of this new XRB. This new Board was to replace the ASRB - Accounting Standards Review Board, who seemed incapable of understanding the lack of an international standard for Depreciation of Revalued Infrastructure Assets in the Public Sector i.e. IPSAS 17 - Property Plant and Equipment. No answer has yet been received to our inquiry regarding this standard.

I recently noted a NZPA release headed 'Simpkins to chair new reporting board' in which other Board member names give little confidence that an answer to our inquiry will be forthcoming.

Does this warrant a further meeting with Jim, you and I to seek a resolution from this new Board?

Regards

Bernie

Absolutely

POSITIVELY

ME HEKE KI PŌNEKE
WELLINGTON CITY COUNCIL

Wellington

**AUDIT AND RISK MANAGEMENT
SUBCOMMITTEE**

MINUTES

TUESDAY 15 MARCH 2011

**9.16AM – 10.49AM
11.10AM – 12.37PM (PUBLIC EXCLUDED)**

**Committee Room One
Ground Floor, Council Offices
101 Wakefield Street
Wellington**

MEMBERS:

Mayor Wade-Brown	(9.20am – 10.49am, 11.10am – 12.37pm)
Councillor McKinnon (Chair)	(9.16am – 10.49am, 11.10am – 12.37pm)
Councillor Best	(9.16am – 10.49am, 11.10am – 12.37pm)
Councillor Lester	(9.16am – 10.49am, 11.10am – 12.37pm)
David Pilkington (External)	(9.16am – 10.49am, 11.10am – 12.37pm)
Kevin Simpkins (External)	(9.16am – 10.49am, 11.10am – 12.37pm)

IN ATTENDANCE:

Councillor Foster	(9.19am – 10.49am, 11.18am – 11.56am.)
Councillor Pepperell	(9.16am. – 10.49am, 11.10am – 12.37pm.)

DEMOCRATIC SERVICES OFFICIERS IN ATTENDANCE:

Maleik Edwards – Committee Advisor

001/11QA **CONFLICT OF INTEREST DECLARATIONS**
(1215/52/01/IM)

NOTED:

1. There were no conflicts of interest declared.

002/11QA **PUBLIC PARTICIPATION:**
(1215/52/01/IM)

NOTED:

1. Bernie Harris addressed the Audit and Risk Management Subcommittee and discussed Report 3 - Implications for Council of New and Proposed Financial Reporting Standards. Mr Harris said that he was concerned with section 5.2.3 of the report which states that the Council does not currently use the International Public Sector Accounting Standards (IPSAS) for Financial Reporting and the consequences this has on financial reporting practices.

(Councillor Foster joined the meeting at 9.19am.)
(Mayor Wade Brown joined the meeting at 9.20am.)

003/11QA **AUDIT NEW ZEALAND GOVERNING BODY (9.25AM – 9.55AM)**
REPORT
Report of Nicky Blacker, Manager – Financial Accounting.
(1215/52/IM) (REPORT 1)

Moved by Councillor Best, seconded Councillor Lester the substantive motion.

The motion was put and declared CARRIED

RESOLVED:

THAT the Audit and Risk Management Subcommittee:

1. *Receive the information.*
2. *Note the content of the 2009/10 Management Report to Council from Audit New Zealand attached in Appendix one.*
3. *Note the progress made in implementing the Audit New Zealand recommendations attached in Appendix two.*

LIVE LONGER AND BE HAPPY

Bernie's University of Life

Smiles are really contagious

Bernard Harris Emts. FNZIM
84 Mills Road
WELLINGTON 6021

Phone: (04) 389 6637

e-mail: btharri@clear.net.nz

9 May 2010

Controller and Auditor General
P O Box 3928
WELLINGTON

Re: Wellington City Council (WCC)

Resulting from a phone conversation last week with Sarah Lineham of your office, a request was made to present my continuing concerns regarding the application of certain accounting policies by WCC.

My original inquiry by phone on Monday, 3 May 2010 was recorded due to the absence of the person to whom the call was transferred: it related to the consistency between the balanced budget and depreciation in the financial policies adopted by WCC.. The following day a message was recorded on my phone referring to Section 100 of the Local Government Act 2002 (LGA) which enabled an unbalanced budget and set out "the four criteria and mentioned the 'cost' of depreciation included in the operating expenses."

Legislation

Section 100(1) states that "A local authority **must ensure** that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.

Section 100(2) states "**Despite subsection (1)**, a local authority **may** set projected operating revenues at a different level from that required by that subsection **if the local authority resolves that it is financially prudent to do so**, having regard to -
(without the need to print each of the four sub-sections below, your attention is drawn to specific wording in each):

-
- (a) "the estimated expenses.....in the long-term council community planwith maintaining the service capacity and integrity of assets throughout their useful life; and
- (b) "the projected revenue.....to fund the estimated expenses.....with maintaining the service capacity and integrity of assets throughout their useful life: and
- (c) "the equitable allocation of responsibility for funding the provision and maintenance of assets **and facilities** throughout their useful life: and
- (d) **the funding and financial policies adopted under section 102.**
- (the emphasis added in the above subsection is to draw precise attention to the proper application of the legislation, **as the purpose of legislation is to set the legal boundaries for all those guided by that legislation**, not just a local authority)

Enclosed with this letter is past correspondence etc. relevant to the above. :

- 1 Letter dated 21 June 2004 addressed to Kevin Simpkins, Deputy Controller and Auditor General.
- 2 Agenda of a meeting on Thursday, 22nd July 2004 attended by Kevin Simpkins & Bruce Robertson of OAG, and Athol Swann, FICANZ, and myself.
- 3 Letter dated 27 August 2008 addressed to Kevin Brady, Controller and Auditor General from the Federation of Wellington Progressive & Residents Associations Inc.

Your attention is now drawn to section 102 of LGA, due to the cross-reference from section 100 above, in which the following wording must inevitably apply:

102(1) states that "A local authority **must**, in order to provide predictability and certainty about sources and levels of funding, adopt the funding and financial policies described in subsection (4).

102(4) states that "A local authority **must** adopt -

- (a) a revenue and funding policy; and
- (b) to (f).

102(5) state that "A local authority may adopt all or any of the following policies:

- (a) a rates remission policy;
- (b) a rates postponement policy

102(6) states that "A policy described in this section may be amended **only** as an amendment to the long-term council community plan."

Attention is also drawn to section 101(3)(b) of LGA which states "The funding needs of the local authority **must** be met from those sources that the local authority determines to be appropriate,**following consideration of** - the overall impact of any allocation of

liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.

Depreciation of revalued assets per IPSAS 17

Your office is aware that the Federation, of which I am Treasurer, has been active in attempting to resolve many of the concerns affecting the whole ratepayer base of Wellington. Uppermost in these concerns has been the imposition of the depreciation element in the renewal/replacement of infrastructure assets which are properly recognised in para.21 of IPSAS 17. It is equally concerning that para. 50 of IPSAS 17 states that "...any accumulated depreciation at the date of the revaluation is treated in **one** of the following ways:

- (a) Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. (applicable for indexed revaluations of replacement cost).
- (b) Eliminated against the gross carrying amount of the asset and the net amount, restated to the revalued amount of the asset. This method is often used for buildings (no mention of infrastructure assets).

N.B. WCC combines both ways, not just one, in their Revaluations i.e. Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount. As a consequence of this practice, the omission of para. 88 of IPSAS 17 requires an explanation.

Para.s 66-75 of IPSAS 17 covering Depreciation Amount and Depreciation Period are equally deserving of attention as to their application by WCC. Para. 70 is particularly relevant to the revaluation of infrastructure assets as renewal/replacement costs are invariably higher than their carrying amount, making the asset's depreciation charge zero. Recognising that infrastructure assets depreciate over time does not mean that renewal or replacement requires capital expenditure to restore its service capability when regular maintenance achieves the same operational result and thereby removes the depreciation charge in subsequent periods. Upgrades and new assets are funded from borrowings.

Revenue and Financing Policy

Perhaps the most sensitive concern relates to the application of section 100(2)(c) and the relevance of section 101(3)(b) in the Revenue and Funding policy, which allocates the rates per planned activity, as determined by that policy, to individual ratepayers.

034/09P **DEPUTATION**
(1215/52/IM)

NOTED:

1. Dr Seddon Beddington – Chief Executive Officer of Te Papa addressed the meeting in relation to Report 4A and their request for \$250,000. Dr Beddington thanked the Wellington City Council for continuing to work with them. He noted that Te Papa sees 1.3 million visitors annually which adds considerably to revenue generated for Wellington City. The success of Wellington as a city is linked to Te Papa, with Te Papa adding greatly to the vibrancy of the city. Mr Beddington appreciated the strain of the current economic situation but emphasised this was an opportunity to increase the profile of Wellington in the coming years.
2. Tom Law – Federation of Progressive Wellington Residents Association (The Federation) – speaking to Report 3. Mr Law commended the Wellington City Council on seeking input from Wellingtonians in a pre-consultation phase. This process has been about gathering information from the people about what they want to see in Wellington. He also congratulated staff members on their hard work. However Mr Law believed this process should have started much earlier. The Federation has held a number of workshops with members of the public and have invited comments and feedback on what people would like to see Wellington look like in ten years. People focused on having things done correctly the first time. There was a lack of support for big budget items, with importance based on infrastructure, water supply and sewage. Mr Law said Wellington City Council needs to draw on the experience and expertise on the people.

035/09P **PUBLIC PARTICIPATION**
(1215/52/IM)

NOTED:

1. Mike Rumble and Erina Papp – on behalf of ICT 20/20 Trust. Mr Rumble noted that research had shown extremely high levels of satisfaction in the Wellington Community Net. He said people are constantly wanting help, assistance and training in building and maintaining websites. The Wellington Community Net is a successful programme that encourages community participation. Mr Rumble offered a solution to the fundamental engagement problem, noting that many groups do not have the means or the funds to engage. This is for a project where Wellington City Council and ICT would work in partnership and enable ICT to reach community groups lacking technical skills and funds. He asked that this, along with funding for ICT be included in the Long Term Council Community Plan.

Notes from presentation by Director of Finance, Neil Cherry

March 2009

Cr. Mckinnon Q. - With the change of the \$M10 targeted rate for the Indoor Community Sports Centre now being changed to borrowings, what will be done with the amount already collected from rates?

Neil Cherry A. - It would be used to pay for the costs that have already arisen at the Kilbirnie site, otherwise it would have to be repaid to ratepayers to avoid a double payment.

Comment: The \$M10 became a targeted rate in 2006 to enable the \$M29 in the Draft LTCCP to become \$M39 in the agreed LTCCP. It is therefore suspected that an amount already paid at the beginning can be accessed from a fund from rates to build the additional facilities towards the end of the construction period.

The answer also confirms that any rates used for capital purposes at the outset has the potential for a double payment from the depreciation charge in subsequent years. The renewal of infrastructure assets require capital inputs every year according to the financial statements, which means that the depreciation charge in subsequent years must be a double payment. Q.E.D.

Cr. Goulden Q. - Who approves the principles adopted for funding capital expenditure by depreciating assets each year, is it SOLGM (Society of Local Government Managers)?

Neil Cherry A. - No, there are comparisons with practices elsewhere. We have used consultants from the Asiatic area for our comparisons.

Comment: It is a requirement of NZ GAAP that accounting principles adopted in NZ are consistent with international standards, which enables consistency globally. Geographic comparisons do not necessarily conform to the global standards.

Subject: SPC Agenda 10 march 2009

From: Bernie Harris <btharri@clear.net.nz>

Date: Mon, 09 Mar 2009 00:54:57 +1300

To: Andy Foster <andy.foster@wcc.govt.nz>, Bryan Pepperell <bryan.pepperell@wcc.govt.nz>, Celia Wade-Brown <celia.wadebrown@wcc.govt.nz>, Hayley Wain <hayley.wain@wcc.govt.nz>, Helene Ritchie <helene.ritchie@wcc.govt.nz>, Ian McKinnon <ian.mckinnon@wcc.govt.nz>, Iona Pannett <iona.pannett@wcc.govt.nz>, Jo Coughlan <jo.coughlan@wcc.govt.nz>, John Morrison <john.morrison@wcc.govt.nz>, Leonie Gill <leonie.gill@wcc.govt.nz>, Ngaire Best <ngaire.best@wcc.govt.nz>, Ray Ahipene-Mercer <ray.ahipene-mercerc@wcc.govt.nz>, Rob Goulden <rob.goulden@wcc.govt.nz>, Stephanie Cook <stephanie.cook@wcc.govt.nz>

CC: Tom Law <lawt@clear.net.nz>, Jim Candiliotis <nppa@paradise.net.nz>, Athol Swann <athol.swann@paradise.net.nz>

The decisions to be made from your meeting on 10 March are so important that your attention is drawn to concerns under discussion at present in different arenas.

Quote: Tossing down the gauge in times past meant pistols or rapiers at dawn, and my seconds will be X and Y.

The documents before you for consideration on 10 March 2009 include the persistent treatment of depreciation as the funding source for renewals and upgrading of capital expenditure by way of rates and borrowings.

The Chair of Audit and Risk Management Subcommittee has been the recipient of all correspondence between FWPRA, the Office of the Auditor General (AG), the Financial Reporting Standards Board (FRSB), and the Accounting Standards Review Board (ASRB) of the NZ Institute of Chartered Accountants, who are unable, or incapable, of answering specific questions having direct relevance to the WCC LTCCP.

This lack of professional independence in regard to the 'Optimised Depreciated Replacement Cost' (ODRC) of infrastructure assets included in the financial statements before councillors must have inevitable consequences.

As the financial portfolio of FWPRA concerns itself with the rating imposition on all Wellington ratepayers contained in the Development Contributions Policy, the Revenue and Financing Policy, and the Funding Impact Statement, it is inevitable that referral to the International Federation of Accountants (IFAC) must be invoked to resolve the impasse that currently exists between FWPRA and these NZ entities.

An article in the Dominion Post on Wednesday, 25 February 2009 - Auditor General frustrated at accounting complexities, includes the following statements:
"The heart of it is that they (IFRS) are designed for major corporates, which they don't have a lot of in New Zealand. They are not designed for the public sector.";

"The whole purpose of accounting is to produce simple information for people to make decisions, and I think we have lost that."; and
"We are so disappointed with the way they (ASRB) are going about it that we have withdrawn our staff from that committee - which is a real tragedy."
Consequently, authority has been sought from Fairfax to copy their article to IFAC, and relevant Ministers in parliament.

Before decisions are made in relation to the proposed financial statements and their related policies in the Reports before SPC, your attention is drawn to Report 9 and the following wording on page 6 of the Summary of Significant Accounting Policies:

'Where there is no market related evidence for an asset, fair value is determined by optimised depreciated replacement cost.'

'Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount.'

As these two comments are at the heart of the FWPRA inquiry with OAG, FRSB and ASRB, councillors are cautioned that their decision to accept these comments as their WCC accounting policy for the LTCCP 2009-2019, may lack consistency with

international accounting standards required by NZ GAAP (refer Basis of Preparation on page 1)

It is expected that councillors will have received the necessary briefings, explanations and clarification of all policy matters contained in the documentation for their deliberations on 10 March. Anything less may be interpreted as a failure of the responsibility reposed by electors on their representatives.

On Thursday, 5 March 2009, a presentation by Professor Jerry Jordan at the American Embassy titled - 'Economic and Financial Crisis: Origins and Consequences' was reported in the Business section of the Dominion Post on Friday, 6 March. Professor Jordan made particular reference to an 'unsustainable housing and consumer spending bubble' or 'high homeowner debt'. 'As the housing market rose people were able to borrow on the increased value of their property, fuelling a massive spending binge.' The similarity to the housing market, and the consequences, were equally evident here in NZ in the valuations of property for rating purposes, which have now reverted to three years. I was present at Professor Jordan's presentation and posed the question to him that the inevitability of the financial collapse from such unrestrained 'policies' must have been clearly evident to the auditors? He did not disagree, nor to the rejoinder that this 'failure of integrity' must have been endemic.

One can only hope that a similar 'failure of integrity' will not result in the 'gauge' being uplifted in these times present.

Sincerely

Bernie Harris
Treasurer
FWPRA

Subject: [Fwd: Origin and Consequence]
From: Bernie Harris <btharri@clear.net.nz>
Date: Fri, 06 Mar 2009 12:30:52 +1300
To: Athol Swann <athol.swann@paradise.net.nz>

FYI

Subject: Origin and Consequence
From: Bernie Harris <btharri@clear.net.nz>
Date: Fri, 06 Mar 2009 12:24:01 +1300
To: Jim <nppa@paradise.net.nz>
CC: 'Ed Robinson' <e@robinson.org.nz>

Jim

Both articles copied from today's DomPost. The source of the global collapse explained in the attachments. My comment to Dr Jordan that the inevitability of the lending debacle in America must have been evident to the auditors as well as the academicians, was countered by the reality in America that one does not disagree with the thrust of government after 9/11 i.e. the financial markets had been politicised. When I added that it was a "Failure of integrity" he concurred.

Ciao

Origin and Consequence.eml **Content-Type:** message/rfc822
 Content-Encoding: 7bit

Dr Jerry Jordan - 5 Mar 09.doc **Content-Type:** application/msword
 Content-Encoding: base64

Genesis of Subprime.doc **Content-Type:** application/msword
 Content-Encoding: base64

THE UNITED STATES may have a one-in-five chance of going into a deep depression with a 10 per cent drop in their standard of living, according to a former central banker.

Former president of US Federal Reserve Bank of Cleveland, Jerry Jordan, in Wellington yesterday said the US government was working fast at bold solutions to the economic crisis.

But the crisis is “profound” and probably the biggest event of the past 50 years, kicked off by the bursting of an unsustainable housing and consumer spending bubble.

“We can’t climb back up the waterfall we just came over,” he told a seminar at the US Embassy.

A new academic study of more than 200 economic downturns in 30 countries around the world suggested an 80 per cent chance there would not be a US depression.

“But there is a 20 per cent chance we will – a one-in-five chance of falling by 10 per cent in the standard of living. That is a big one,” Mr Jordan said.

The academic study was carried out by Bob Barro, a professor of Harvard University and an expert on business cycles. Mr Jordan said he did not think anyone else had a better grip on the economic plight of the US.

The US is New Zealand’s second-largest trading partner, buying \$4.5 billion of goods in the past year, more than 10 per cent of all exports.

There was nothing inevitable about a financial meltdown leading to an economic downturn, Mr Jordan said. However, the present crisis was different from past downturns that followed big sharemarket falls or companies having to cut debt heavily. “This is [high] homeowner debt,” he said.

The “toxic brew” leading to the crisis was having interest rates too low for too long after the 2001 terrorist attacks in the US, and antidiscrimination political policies that encouraged lending to poorer people.

The Federal Reserve had its foot on the accelerator with low interest rates till 2006, helping fuel a housing price bubble.

Home mortgage markets became “politicised” with government policy against discrimination leading to greater lending to ethnic minorities, poor people and innercity people.

Banks with plenty of cash ended up hunting for people to lend to, initially lending 80 per cent of a home’s value, but in some cases lending the full amount or even 110 per cent, so people could buy cars, furniture and big screen televisions with the extra cash.

There were “liar loans” with no credit statements needed on a borrower’s income or ability to repay.

There were also “Ninja” loans to people with “no income, no job and no assets”.

High risk “subprime loans” increased dramatically.

As the housing market rose people were able to borrow on the increased value of their property, known technically as “home equity withdrawal”, fuelling a massive spending binge. In the 1990s,

an average of \$50 billion a year was taken out in home equity withdrawal.

At the peak three years ago, that had reached more than US\$600b a year.

“My house is my ATM (money) machine,” he said.

In total between 2000 and 2007 about \$3.5 trillion was withdrawn, allowing people to spend heavily on buying second holiday homes, or cars, televisions and so on.

In the September quarter of last year, it came to a screeching halt.



“It fell off the cliff,” he said.

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Minor announcement had major impact on the world

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IT WAS only 351 words long, but it was devastating. With the benefit of hindsight, a Stock Exchange announcement by HSBC, released just before midnight on Wednesday, February 7, 2007, was the moment the credit crisis began. The statement opened innocuously enough: “HSBC Holdings plc wishes to update the preclose trading statement issued on 5 December 2006 in respect of a single matter.”



No sale: As bankers were discounting subprime mortgages as a “tiny part of business”, many of the world’s biggest banks were starting to unravel.

From there, though, the red ink started to flow. The statement went on to admit that slowing house prices had led to higher delinquency rates among American mortgage customers and that bad debts in the business would be 20 per cent worse than expected. It was HSBC’s first profit warning in its 142-year history, and a profound shock to a proud organisation.

Mike Geoghegan, its hard-man chief executive, told the market that he was taking personal responsibility. “It’s an embarrassment to me and I want it sorted out. I’m not happy that this has happened on my watch, and know that I will be judged on how I deal with it.”

At the time, HSBC was regarded as an isolated case, while the fact that a few United States homeowners with dubious credit records were struggling to keep up their mortgages did not, in itself, seem especially alarming.

This was something that Mr Geoghegan even seemed to encourage that day: “This is a tiny part of our worldwide business, and the peak of the storm is likely to be in 2007. These kinds of mortgages only run on average for two years, so most will be working through the system.”

But the fuse had been lit, and, within days, the true impact of the problems in the subprime mortgage market were becoming clear. Shares of New Century Financial, Fremont General and NovaStar Financial, all specialist subprime lenders, went into freefall on the back of HSBC's warning.

However, subprime was still seen as a marginal activity, not something that everyone was touched by. Announcing that Royal Bank of Scotland's annual profits had topped £9 billion for the first time, chief executive Sir Fred Goodwin said that the bank had "retained our inherently cautious stance towards higher-risk activities, such as subprime credit markets".

This would quickly change. As New Century said that it might not be able to stay in business, both Barclays and UBS admitted having exposure to it, while City analysts were starting to wonder which banks had exposure to the sector through trading parcels of subprime mortgages that had been securitised. By May that year, UBS had closed its hedge fund division because of subprime related losses. A month later Bear Stearns was engulfed in speculation it was struggling amid its exposure to mortgage-backed bonds. By July 2007 Ben Bernanke, chairman of the US Federal Reserve, was telling Congress: "A lot of the subprime mortgage paper is not, you know, as good as was thought originally."

A month later, the FTSE 100 had fallen under 6000 points and the European Central Bank and others were pumping liquidity into the money markets, which were showing signs of strain as banks – seeking to avoid the problems their US peers had with subprime – cut back on lending to each other. Then came September and Northern Rock. It had all been so different when, on November 14, 2002, HSBC said that it was paying £8.97b for American-based mortgage lender Household. Sir John Bond, HSBC's distinguished chairman, chirped optimistically how the deal would instantly bring the bank a further 50 million customers worldwide. The accompanying presentation tried to reassure investors by pointing out that only one in five

Photos: REUTERS mortgages granted by Household was subprime. About 46 per cent of its property lending was secured.

Ignore the fact that Household had just been fined £305m for ripping off poor people, HSBC spin doctors said; "look at the fact that we're paying only seven times earnings for this hugely profitable business".

But investors were asking questions, not least about the US\$37m package being offered to William F Aldinger III, Household's chief executive, which included use of the company jet.

In April 2005 Household still looked a good deal. Apparently turbo-charged by Household, America was HSBC's biggest single source of profit during 2004, contributing more than \$6b. The next year HSBC made near-\$7b profits in the US. Bowing out at the annual meeting in May 2006, the retiring Sir John told shareholders: "Our largest businesses – those in the US, Hong Kong and the UK – have all performed well and overall our credit experience remains good."

But as he spoke, just as the flapping of a butterfly's wings is said to be capable of causing a tsunami elsewhere in the world, it is likely that a poor Household borrower in Kentucky or Alabama was defaulting on their mortgage payment.

The Times

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The Public Affairs Section of the Embassy of the United States of America
Invites you and your colleagues to a presentation by

Dr. Jerry Jordan

President, Pacific Academy for Advanced Studies

Economic and Financial Crisis: Origins and Consequences

Venue: Auditorium, U.S. Embassy, 29 Fitzherbert Terrace, Thorndon, Wellington
Thursday, 5th March @ NOON

Invitees are requested to arrive by 11.50am to clear security for this Noon start
Venue: Auditorium, U.S. Embassy, 29 Fitzherbert Terrace, Thorndon, Wellington

Jerry L. Jordan was President of the Federal Reserve Bank of Cleveland from 1992 until January 2003. In that capacity, he also was a member of the Federal Open Market Committee of the United States. Mr. Jordan has worked in government, academia, and commercial banking. After receiving a Ph.D. in economics at UCLA, he was employed at the Federal Reserve Bank of St. Louis, rising to the position of Senior Vice President and Director of Research. While at the St. Louis Fed, he was on leave to serve as a consultant to the Deutsche Bundesbank in Frankfurt. Mr. Jordan's commercial banking experience includes five years at Pittsburgh National Bank and seven years at First Interstate Bancorp in Los Angeles. Mr. Jordan served as a member of President Reagan's Council of Economic Advisers in 1981/1982, during which time he was also a member of the US Gold Commission.

In this presentation, Dr. Jordan will address some of the contributing factors in the current global financial situation, and discuss possible policy responses by governments and central banks. The presentation will be followed by a Q & A session.

BOOKING FOR PRESENTATION Please reply by NOON Wednesday, 4th March.

Please email wellington.arc@state.gov OR Phone: 462 -6122

Name of person (s) attending _____

Title _____ Organization _____

Contact phone/email address _____

Cell phones, recording devices and cameras are not permitted inside the Embassy.

Auditor General frustrated at accounting complexities

Auditor General Kevin Brady today reiterated frustration at the difficulties public sector entities face with complex financial reporting standards.

A New Zealand equivalent of International Financial Reporting Standards (IFRS) was introduced in 2002 by the Accounting Standards Review Board (ASRB) and enacted in 2007.

Mr Brady said its introduction had increased the complexity of financial reporting and auditing.

The Office of the Controller and Auditor-General outlined the concerns in its last annual report, and Mr Brady reiterated them at a parliamentary finance and expenditure select committee hearing today.

"The heart of it is that they (IFRS) are designed for major corporates, which we don't have a lot of in New Zealand. They are not designed for the public sector," he said.

The more complex standards were costly and time-consuming, particularly when applied to the likes of schools, where more simple reporting would suffice.

Mr Brady said in the education sector last year, auditing the IFRS component of schools' accounts cost hundreds of thousands of dollars more than it would have been under previous standards.

It wasn't only the auditors outside the IFRS who were affected, but accountants who had to get outside help to prepare the accounts.

"Also a lot of people on the Government's boards – including some of our larger crown entities. . . don't understand the accounts side of it, and that's not good.

"The whole purpose of accounting is to produce simple information for people to make decisions, and I think we've lost that."

He suggested the best option would be to have IFRS for the major corporates and different accounting standards for the public sector.

The office has traditionally had voluntary representatives on the Financial Reporting Standards Board – a committee of the NZ Chartered Accountants Institute which has to get approval for its proposals from the ASRB – but the office had been unable to gain traction in terms of getting its concerns dealt with.

"We are so disappointed with the way they (ASRB) are going about it that we have withdrawn our staff from that committee – which is a real tragedy."

The voluntary committee members, numbers of which have varied between one and three, were pulled this year when the office decided it was a waste of resources to keep them there.

- NZPA

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Federation of Wellington Progressive & Residents Associations Incorporated

President: Jim Candiliotis

nppa@paradise.net.nz

Secretary: Tom Law

lawt@clear.net.nz

134 Hanson St

Newtown

Wellington

8 February 2009

Mr Ken Warren
Accounting Standards Review Board
Private Bag 92162
Auckland

Dear Mr Warren

Depreciation of Re-valued Infrastructure Assets for Public Benefit Entities

Thank you for your reply of 20 January 2009, which was presented and discussed at Federation's Executive Committee meeting on Tuesday, 27 January. There was a unanimous concern that it seemed the important issues drawn to the Board's attention had either been misinterpreted, misunderstood, or the implications not fully comprehended.

It was noted immediately that the ASRB's role in financial reporting is limited to that of approving proposed accounting standards submitted to it, and setting the broad strategic direction for standard setting. As we were guided in approaching the ASRB, as the statutory board responsible for standard setting, by Mr. Shewan of PricewaterhouseCoopers, your explanation that the ASRB is a virtual entity without the mandate to initiate or make changes, is in direct variance with that guidance.

Our inquiries were directly related to assurances given by the Wellington City Council that audit clearances since 2003 have been consistent with the standards approved by the ASRB. Federation therefore sought your earliest confirmation that all relevant New Zealand standards, including FRS and IFRS since then have been consistent with the international standards of the International Federation of Accountants (IFAC). Your answer to that question was that it is not possible to confirm full consistency between the current standards that represent NZ GAAP and IFAC standards (including IPSASB). The historical background is well known to Federation as our professional advisers have extensive experience in New Zealand and international accounting, your own contributions to the the subject having been available since its publication in the Chartered Accountants Journal in July 2004 and June 2006.

Your attention is also drawn to the attachments to our letter of 29 October 2008 in which it will be noted that our references are direct extracts from FRS-3 and IPSASB, not the views of Federation. It would therefore be relevant to also draw your attention to the heading of this and our earlier letter i.e. depreciation of re-valued infrastructure assets; we are fully aware of the need for depreciation of infrastructure assets where appropriate, our inquiry relates to the practice of depreciating revalued

assets by asset groups for renewal or replacement.

Depreciation is the agreed percentage per annum allowed by the Internal Revenue Department, enabling that tax allowance to be applied to an asset's renewal or replacement. As this practice has been unchanged for all commercial entities, the lack of any taxation obligations for public-benefit entities created the introduction/invention of an equivalent cash allowance for the depreciation of any assets in the public sector. Our inquiry seeks the authority for the introduction of Optimised Depreciated Replacement Cost as being that equivalent. It is our professional advisers' understanding that a substitute to provide inter-generational equity requires further debate, not academic modelling or theory.

You will be aware that every local authority in New Zealand is currently engaged in the preparation of the third Long Term Council Community Plan (LTCCP) in accordance with the Local Government Act 2002. As the answers to our inquiries will/must directly affect that statutory responsibility, a precise answer is now urgent.

Should its urgency be considered otherwise by the ASRB, we will be left with no other option than to bring the subject to the earliest attention of the Minister, Hon Rodney Hide while the economic straits being experienced globally will inevitably impinge upon all New Zealanders between now and 2019 - the period of the LTCCP being prepared by Councils.

Yours faithfully



Tom Law
Secretary

: You asked, I deliver

Subject: RE: You asked, I deliver
From: Andy Foster <Andy.Foster@wcc.govt.nz>
Date: Wed, 15 Oct 2008 21:24:08 +1300
To: NPPA <nppa@paradise.net.nz>
CC: Bernie Harris <btharri@clear.net.nz>

tk's Jim. I'll have read and see what my spine feels like.

Regards

Andy

From: NPPA [mailto:nppa@paradise.net.nz]
Sent: Tuesday, 14 October 2008 3:26 p.m.
To: Andy Foster
Cc: Bernie Harris
Subject: You asked, I deliver

Andy, re our conversation this morning.

I'll take you back a year or so to Bernies' front room. At that time you chose to debate with us our contentions that WCC were not complying with IAS's. I would point out that this was also the case with the Auditor General so you weren't alone, although they just said that they would "agree to disagree" and it was just "interpretation".

It would appear that the AG has had a change of heart, and now see things our way. In short he now "get's it"

I have cut and pasted a few things below that should send shivers up your spine, if you understand them. This is no longer a debating issue Andy, the shit has hit the fan.

If you still don't understand what's happening "get it" I don't no how I or we can assist you. But if you want to understand what's happening, we, again would be happy to assist you.

I have attached the entire report as much of it will have an impact at some stage.

Jim

In this Part, we:

- comment on our increasing unease with New Zealand equivalents to
7.1 International Financial Reporting Standards (NZ IFRS) for the public sector; and
- report on the local government sector's experience with preparing annual
fi nancial statements in accordance with NZ IFRS for the fi rst time in 2007.

7.2 We are becoming increasingly concerned about the credibility of NZ IFRS for the public sector. If appropriate and sensible changes are not made to NZ IFRS in the future, there is an increasing risk that the resulting set of standards will not be of high quality, nor ultimately “fi t for purpose” for the public sector.

7.3 We have raised our concerns with the chairman of the Accounting Standards Review Board (ASRB) because we consider that continuing with the current approach is not in the best interests of the public sector. We consider that the ASRB understands the nature of our concerns and that the ASRB is trying to address the causes of the underlying problems within the current standardsetting environment.

7.11 We are becoming increasingly concerned about the credibility of NZ IFRS for the public sector. We consider that the three factors listed above are not happening in all instances. If appropriate and sensible changes are not made in the future, there is an increasing risk that the resulting set of standards will not be of high quality, nor ultimately “fi t for purpose” for the public sector.

7.14 For example, widespread concerns were raised throughout the public sector about a requirement to capitalise borrowing costs to certain assets and its implication for depreciated replacement cost valuations of assets, which are common in the public sector, particularly in local government. No changes were made to the standards or guidance issued as a result of the concerns raised. We fear that the reliability of valuations will be seriously impaired as a result of the requirement to capitalise borrowing costs to certain assets. The scope of some audits may be limited, thereby aff ecting the nature of the audit reports issued. We also have reservations that the costs and benefi ts of compulsory capitalisation have not been adequately assessed.



Federation of Wellington Progressive & Residents Associations Incorporated

President: Jim Candiliotis

nppa@paradise.net.nz

Secretary: Tom Law

lawt@clear.net.nz

27 August 2008

Mr. Kevin Brady
 Controller and Auditor General
 Private Box 3928
 WELLINGTON 6140

Dear Mr. Brady

Local Government: Results of the 2006/07 audits

I refer to the above report dated 17 June 2007 (?) for presentation to the House of Representatives. I have held the delegated responsibility for the Finance portfolio of Federation from 2003, and have reported their concerns to your Office and the Wellington City Council (WCC) since then - your Ref: LG05 - 0016.

On 7 March 2008, between 3.30 p.m. and 4.30 p.m., I spoke with Mr. Bruce Robertson of your Office regarding an email to him the previous evening, Subject: Resolution of Depreciation Procedures. I must presume that the substance of that conversation was discussed with you subsequently. The double-counting, and even triple-counting, of depreciation provisions had evidently been identified during the local body LTCCP audits.

Federation's concerns since 2003 had identified this practice by WCC, but a letter dated 18 May 2006 from your Office re Wellington City Council (LG05 -016-C) contains the following paragraph on page 2:

"We acknowledge that you have a different opinion about the use of GAAP. This has been thoroughly explored in a number of discussions with members of this Office; the discussions also considered the principles of accounting practice. In our view, we have reached a point where it is necessary to acknowledge that opinions differ, and we suggest that we will have to agree to disagree."

Sir, it was not a personal opinion I was expressing. Your files will clearly show that I continuously referred to international financial standards, my familiarity being identified in the second paragraph

of my original letter to your Office of 10 October 2003 i.e. Shell Oil from 1965 to 1977, and Price Waterhouse between 1981 and 1996. With that operational experience, I had no prior knowledge of GAAP providing the authenticity for depreciating revalued infrastructure assets for Public Benefit Entities. The email to Mr. Robertson of 6 March 2008 showed that IPSAS-17 did not provide that authentication, and he indicated that the 2006 audit report, on page 79, para.s 7.42 to 7.48, (apparently) addressed Federation's historic concerns.

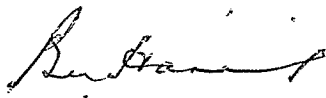
Your report of 17 June 2007 (?) was therefore discussed at Federation's regular monthly meeting on 22 July 2008 and some consternation was expressed that Part 7 - Transition to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), has no reference to Optimised Depreciation of Replacement Cost (ODRC) at all, as the basis for depreciating infrastructure assets. You will therefore appreciate that any local authority, including WCC, may consider themselves vindicated in their adoption of ODRC, and the inclusion of substantial depreciation funding in their Annual Plans and LTCCP. Indeed, WCC have continued their past practice for funding depreciation in their Annual Plan 2008/2009.

We have noted in your report, however, that your Office holds "a broader concern about the appropriateness of NZ IFRS for local authority reporting" and "there is a need for simplicity and clarity in reporting to communities that local authorities serve."

Federation is committed to serving its communities: it therefore asks this serious question for your earliest consideration - How has it been possible since 2003 for GAAP to accept financial practices in New Zealand, for Public Benefit Entities, which may be contrary to the 2003 IFAC Handbook of International Public Sector Accounting Pronouncements?

As Federation will be commencing their early involvement in the WCC LTCCP 2009/19 procedures on Sunday, 31 August, we are disconcerted that the debt burden imposed on our communities by the continuation of ODRC and its inclusion in the Funding Impact Statement, still lacks an appropriate resolution.

Yours sincerely



B U Harris
Treasurer

Encl. - Appendix - Relevant copies of past correspondence.

Appendix to FWPPRA letter to Mr. Kevin Brady, Controller & Auditor General dated 27 August 2008 , regarding the depreciation of infrastructure assets by the Wellington City Council (WCC).

Relevant correspondence, etc.:

- 1 Guidelines for Renewal Accounting of Infrastructure Assets - November 1993 (18 pages)
- 2 Statutory references to Financial Management and 'generally accepted accounting practice' for Local Authorities (2 pages)
- 3 Oral Submission to WCC - 3 June 2003 (1 page)
- 4 Original letter to Office of the Auditor General (OAG) dated 10 October 2003 and acknowledgement dated 20 October 2003 (4 pages)
- 5 Letter to OAG dated 20 November 2003 with reference to international standards and revaluation of infrastructure assets (2 pages)
- 6 Newspaper article re PricewaterhouseCoopers chairman John Shewan (1 A3 page)
- 7 Dominion Post article dated 26 July 2004 referring to the adoption of international accounting standards (1 A3 page)
- 8 Letter from OAG dated 1 September 2005 replying to letter dated 20 March (3 pages)
- 9 Dominion Post article dated 23 September 2005 re international standards (1 A3 page)
- 10 Letter dated 2 December 2005 to Financial Reporting Standards Board (FRSB) (3 pages)
- 11 Reply dated 6 January 2006 to OAG letter of 1 September 2005 (2 pages)
- 12 Reply from FRSB dated 18 January 2008 (1 page)
- 13 Email of 6 April to OAG re WCC - LTCCP (4 pages)
- 14 Letter from OAG dated 19 April 2006 (2 pages)
- 15 Email to OAG dated 24 April (2 pages)
- 16 Letter from OAG dated 18 May 2006 with "... agree to disagree" comment (2 pages)
- 17 Email to John Scott re definition of 'depreciable amount' (1 page)
- 18 Public participation to WCC Subcommittee on 27 June 2006 (4 pages)

100

Subject: RE: Audit and Risk Management Subcommittee (A&RMS) Meeting - 25 August 2005

Date: Fri, 19 Aug 2005 08:01:24 +1200

From: "Ian Mckinnon" <ian.mckinnon@wcc.govt.nz>

To: "Bernie Harris" <btharri@attglobal.net>

CC: "Ian McKinnon" <ian.jennymck@xtra.co.nz>

Dear Bernie

Thank you for your e-mail and that very open account of your intentions.

Would you have any objection to my sending it Neil Cherry, Acting CFO, John Scott, Director Audit & Risk, and the external members of ARMS?

Your PS is spot on ... and Jenny sat beside Dr Malohoff at a dinner who said there is lashings of oil once we learn how to get below the sea bed (I hope I haven't misquoted him) - but that doesn't stop the politicians!

All good wishes

Ian McK

PS Please 'reply to all'.

-----Original Message-----

From: Bernie Harris [mailto:btharri@attglobal.net]

Sent: Friday, 19 August 2005 12:33 a.m.

To: Ian Mckinnon

Subject: Audit and Risk Management Subcommittee (A&RMS) Meeting - 25 August 2005

Dear Ian

I regret that I was not available when you rang tonight at 9.57 p.m. We both operate at those awful hours.

I have become particularly conscious of late that the volume of material, hence information overload, diverts or distracts one from setting the right priorities. As the Boss, I didn't have that problem; now there appear to be so many bosses that one has to wonder if anyone is setting any priorities. In the present electoral environment one has to really concentrate to avoid the dross.

To the point! During an earlier short discussion with you after your first A&RMS meeting you indicated we should meet to discuss my particular issue relating to the depreciation of Infrastructure Assets. That was the purpose of my call the other evening.

I intend to speak during Public Participation at your meeting on the 25th (incidentally I have the Agenda and Reports of your 17 June meeting in which it states that the next meeting was to be on Tuesday, 23rd August?) at which I shall be referring to FRS-3 Property Plant and Equipment (P.P. & E) and seeking the authoritative source of the practice adopted by WCC, and its audit validation. My reason for doing so is to establish why OAG refuses to answer the question which was put to Kevin Simpkin mid-2004, and still remains unanswered. My letter to Kerry Prendergast as Mayor, dated 25 March 2005, which was copied to you and Jack Ruben A&RMS, and Bruce Robertson of OAG on that subject has also remained unanswered. I indicated in that letter a discrepancy of \$M200 in the revaluations between 1998 and 2000 without it eliciting a

response from anyone. I also alluded to the practice of including the depreciated replacement cost of infrastructure assets in the Revenue and Financing Policy which is the basis for establishing the annual rates.

Every attempt to gain the co-operation of Council officers in order to resolve this matter have failed. I have therefore met with Andy Foster as Chair of the Development Contributions Policy Subcommittee at my home and given him the Exposure Draft of Renewal Accounting to explain the accounting treatment of maintenance/capital expenditure of infrastructure assets to avoid double counting. I have made it quite clear during public participation before both SPC and full Council of my concerns regarding the methodology adopted. I also made a submission before the Greater Wellington Regional Council in support of a request from WCC to reconsider their accounting treatment of the depreciation of railways rolling stock.

The inconsistency between the accounting treatment by WCC and GWRC is also being queried with OAG by Newlands Paparangi Progressive Association.

I was first asked by the Federation of Wellington Progressive Associations to investigate this accounting treatment in 2003 when the resistance to co-operate became apparent. As every ratepayer in Wellington is affected, it was inexplicable that any form of co-operation was being denied.

At the Federation's normal monthly meeting next Tuesday evening, 23rd August, I shall be formally moving a resolution that the Revenue and Financing Policy, from which the 2005/06 rates are derived be independently reviewed. As a private Wellingtonian I shall also be progressing my original complaint with the Local Government Commission and Remuneration Authority, with the Office of the Ombudsmen, The Department of Internal Affairs, and the Minister of Local Government (HW The Mayor refuses to respond to a request from my Ward councillor to satisfy my inquiry regarding the explanation given by the City Secretary relating to the conduct of the Council meeting on 30 October 2004 and 5 November 2004). Once the responses from these initiatives have been resolved, Federation and the residents, whose interests the member Associations represent, will be better informed as to their economic well being.

This accounting treatment deserves to be explained without any evasion whatsoever so that any doubts are satisfied. Any resistance to answering any question only aggravates the situation when it is the funder of the activity seeking the answer.

Best regards

Bernie

p.s. Incidentally, the oil price escalation is gaining an increasing public awareness with the politicians making all their usual responses (classical repetitive noise without substance). A legislative solution to a global situation??????????



26/7/04

Mr Harris,

Attached please find a list of FRSB members (2000-2001)
 and recent articles about public sector accounting from
 the Institute's Journal

With Compliments

Regards
 Simon Lee

National Office

Level 2, Cigna House, 40 Mercer Street, PO Box 11 342, Wellington, New Zealand
 Telephone: 64-4-474 7840, Facsimile: 64-4-472 6282.

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 Pam Fauvel FCA
 Angela Hauk-Willis
 Vic Hayes AT
 Jim Hoare FCA
 Gary Leech FCA
 Colin Notley FCA
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 Auckland
 Auckland

Secretariat: Deborah Macartney --- Professional Conduct Manager

* Chair



**MEETING AT THE OFFICE OF THE CONTROLLER AND
AUDITOR GENERAL
THURSDAY, 22ND JULY 2004 at 3.00 p.m.**

Suggested matters for clarification:

- 1 Fair value of infrastructure assets**
 - (i) Road Network**
 - (ii) Sewer systems / Drainage**
 - (iii) Water reticulation**
 - (iv) Land**

- 2 Revaluation of P.P. & E Assets**

- 3 Depreciation of P.P. & E Assets (as a funding source)**

- 4 Local Government Act 2002 – Effective 1 July 2003**

- 5 Long Term Council Community Plan – LTCCP**

- 6 Draft Annual Plan / Annual Plan / Annual Report**

- 7 Draft Revenue and Financing Policy for Rating Purposes**

- 8 Co-operation in providing information in a timely manner to improve consultation between Local Authorities and the public**

- 9 Purpose of Statutory Consultation**

10 Audit Report to inform and provide public assurance of best practice in financial management (Financial Reports are only meaningful to people having financial backgrounds)

Subject: [Fwd: OAG review of WCC Financials?]

Date: Sun, 27 Jun 2004 02:02:42 +1200

From: Bernie Harris <btharri@attglobal.net>

Organization: Bernard Harris & Associates

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For your information

It was noted in last Friday's "Wellingtonian" that the Council would be meeting on Monday at 9.15 a.m. to approve the DAP.

This meeting had not previously been shown in any previous Public Notice I had sighted, nor was it shown on the annual programme of council Committee meetings.

The local library advised that they received notice of the Monday Council meeting, at 4.15 p.m. Friday. It was therefore contrary to previously published information that Agendas and Reports of all council meetings would be available x days beforehand at all libraries. The Monday agenda states that all reports are to be circulated at the meeting.

It is therefore impossible for any member of the public to participate at the full Council meeting, which is to confirm the details of the Annual Plan 2004/05, on Monday due to Standing Orders of Council. Councillors will be aware that the public are only able to speak to any reports before the council at all full Council meetings.

All recipients of this memo also received my email to Chris Parkin of Monday, 21st June prior to the P & P Committee considering the Reports prepared for their meeting on Tuesday, 22nd June. Presuming that the subject was of interest, it contained an attachment letter to OAG which was the culmination of a detailed investigation instigated as a consequence of the Annual Plan 2003/04, approved by Council in two (2) minutes last year. The implications of the LGA 2002, effective from 1 July 2003 have been

integral to this investigation.

The Federation of Wellington Progressive and Residents Associations (FWPRA) were advised of the implications of this investigation at their monthly meeting on the Tuesday night. They were informed that the international accountancy profession would be concerned should any international standards be conveniently reinterpreted by a domestic jurisdiction.

Until the practice of depreciating and revaluing infrastructure assets of 'public benefit' entities has been reviewed by the Financial Review Standards Board in New Zealand, the inclusion of such depreciation in the Revenue and Financing Policy must remain in contention. It is suggested that councillors, as the representatives of Wellington city electors, consider whether Council officers have been guided by the appropriate 'authoritative support within the accounting profession in New Zealand' (Council officers do not come within this legal definition and their advice is neither independent nor impartial). Being unaware of the recommendation from P & P Committee's Tuesday meeting (to be considered at the full Council meeting on Monday), the Conclusion in Report 2 to that meeting had been noted - 16 submissions were received of which the majority were opposed yet "After addressing the issues raised in submissions it is considered that the original rationale and process that applied to the development of the Draft Revenue and Financing Policy remains valid." (the author/s of that statement was not identified).

FWPRA is committed to protecting all residents from inappropriate policy, particularly where subjective opinion makes its financial impact inequitable. It is for this reason that the Revenue and Financing Policy had been identified for detailed inspection. This investigation has indicated that depreciation accruals in excess of \$M20 may be involved

Prior evidence has indicated that Council has been relatively immovable in altering its chosen positions in past Draft Annual Plans, which are then incorporated in the LTCCP. Under these circumstances, the Fourth Estate must become our alternative to help determine the final outcome.

Our reliance on the validity and accuracy of the Financial Statements in the Draft Annual Plan cannot be overemphasized. The apparent haste for Monday's meeting is therefore cause for some disquiet.

Sincerely

Bernie Harris

Subject: Re: OAG review of WCC Financials?

Date: Sun, 20 Jun 2004 22:19:31 +1200

From: Peter Graham <pgraham@paradise.net.nz>

To: btharri@attglobal.net

Bernie

Thanks for your email and attachment. Unfortunately my printer is out of action so I haven't been able to print them out. Hopefully I'll get the printer back tomorrow but there's no guarantee of this. However I've included this in my list of correspondence for Tuesday's (22 June) meeting of the Executive Committee (I've made other arrangements to print this off).

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21 June 2004

Mr. Kevin Simpkins
Deputy Controller and Auditor General
Office of the Auditor General
Private Box 3928
WELLINGTON

Dear Mr. Simpkins

Re: Wellington City Council Financial Statements

I refer to and thank you for your letter of 10 May 2004, reference LGO5-0016. I also appreciated the opportunity to speak with you personally, in the early afternoon of 21 May, just prior to my forwarding my formal submission (copy enclosed) to the Draft Annual Plan 2004/05 (DAP).

Your explanation of "Generally Accepted Accounting Practice", together with its supporting statutory references, was helpful in explaining why the processes adopted by the Wellington City Council has the mandatory component, namely Approved Financial Reporting Standards. With respect, my stated concern has not been with the Reporting Standards *per se*, it has been with the way those reporting standards have been incorporated into the Financial Statements, which have then been validated by the audit process.

It is particularly important that there be an unequivocal acceptance that SSAPs and IASs are not contestable here in New Zealand. All FRSs must therefore conform to those standards. It must therefore follow that any definitions incorporated in all those standards be consistently applied.

Although you note that the Public Sector Committee of the International Federation of Accountants did publish a standard on Accounting for PP & E in 2002, you acknowledged that IPSAS 17 was very similar to FRS-3, (quote) "although FRS-3 includes greater detail in relation to valuation and certain other matters."

In your answer to the question seeking the international accounting standard to support the revaluation of assets, and basing depreciation on those revalued amounts, in the

public sector in New Zealand, reference to IPSAS-17 at www.ifac.org proved unhelpful in relation to the practice adopted by Council. IAS-16 and FRS-3 are primarily standards for profit oriented entities. Consequently, public sector entities, which are profit oriented, must also apply these standards i.e. S.O.E.s, L.A.T.E.s, certain trusts or C.C.T.O.s. The same practice is not necessarily applicable to non-profit or 'public benefit' entities. Your conclusion that "There is therefore clear international authority for the treatment adopted by Wellington City and by most local authorities in New Zealand." suggests that a 'public benefit' entity can also adopt the standards that really apply to a 'profit-oriented' entity. Such an interpretation deserves wider debate before its adoption.

Rather than my concerns descending into an acrimonious debate, your attention is drawn to paragraphs 4.23 and 7.1(a) of FRS-3, defining "Fair value" and the condition that 'an item of property, plant and equipment may be revalued provided all the items within the class to which the item belongs are revalued to fair value.' Such revaluations to 'fair value' do not apply to infrastructure assets that are not "market" related or consistent with "market value", "open market value" or "current market value". Revaluing items of PP & E that are essential components of water, waste and drainage networks also require clarification regarding their classification e.g. pumps, pumping stations and their ancillary equipment. The revaluation of land under roads to fair value clearly fails any applicable "market" test.

The definition of "Depreciation" in paragraph 4.22 of FRS-3 relates to the consumption of the economic benefit during the asset's useful life. That paragraph 2.2(a) specifically states "... the entity may adopt the rates of depreciation applicable for income tax purposes." seems to limit its application to profit-oriented entities by recognising depreciation as a tax-allowable expense. You will be aware that the OAG issued a paper on the funding of depreciation (dated 28 January 1999) to determine whether a breach of S122C of LGA 1974 had occurred,, and the associated audit action in respect of any breach. Since 1999, the practice adopted by Wellington City Council in funding depreciation, and the use of those funds, has been vigorously opposed as being contrary to any previously known accounting practice. That opposition has been patently ignored, yet the only authority given for the practice has been the OAG.

You will have noted that Wellington City Council stated in their letter of 26 March 2004, in answer to Question 4 "Your assertion that depreciation is used by Council as a funding source for new capital expenditure is completely incorrect." That answer deliberately ignored the words "since 1999" in that question and was the prime reason for the questions being referred back to your office. **An answer to that original question is still lacking.** Instead, it is noted that the Council now adopt the terminology 'renewal' and 'upgrade' of assets to justify their use of the whole of the depreciation provision each year. Consequently, there is no transfer to sinking or reserve funds for the future despite the depreciation provision having escalated to \$M51.5 in 2004/05 and projected to be \$M69.5 in 2012/13. This escalation can only arise from increased capital expenditure, depreciating revalued assets, or a combination of both.

However, whether infrastructure assets of public benefit entities should be revalued, capitalized or depreciated is vitally important in determining the Revenue and Funding Policy under the new legislation. You so rightly have noted that this policy 'provides the means by which Councils communicate their intentions in relation to rates and communities are able to respond and provide comment.' The complexity of this policy document is deserving of a completely different evaluation process from the usual DAP consultation with Wellington ratepayers. Indeed, the Audit New Zealand report included with the (Draft) policy document notes:

- responsibilities under the Local Government Act 2002 (the Act)
- the Statement of Proposal (SoP) comprises 103 pages;
- the SoP includes amendments to the Council's LTCCP (the Plan) to 30 June 2013;
- the Plan was adopted on 26 June 2003 and the SoP was adopted on 16 March 2004;
- the SoP amendments to the Revenue and Funding policy (under section 102);
- the Council is required to undertake the special consultative procedure (section 83);
- the Council must have regard to sections 77, 78, 79, 80, 82, and 101 of the Act;
- the Auditor's responsibilities [section 84(4)];
- the basis of the audit opinion; and
- the audit opinion.

It was particularly noted that as the Act did not provide for an audit of the Plan, it had not been examined; as a result, a view had not been formed on whether an appropriate framework for the meaningful assessment of the actual levels of service provision had been provided. Neither had a view been formed on the application of the amended Revenue and Funding Policy as a whole. Despite these qualifications, the formal opinion gives the impression that the SoP to amend the Plan complies with (all) the applicable requirements of the Act, is supported by underlying information and assumptions, reasonably reflects the impact on service levels to 30 June 2013, and when viewed as a whole, is balanced and the information therein is fairly presented.

Whilst there will undoubtedly be an explanation for this apparent contradiction, the reality is that the SoP adopted by the Council on 16 March 2004 contained all the financial information upon which the opinion was formed, irrespective of whether a full audit was conducted. The difference however is that the (Draft) Revenue and Funding Policy, available for consultation, contains none of that financial information. Under those circumstances, one must question how the special consultative procedure (per section 83 of the Act) could be satisfied? The scope of the SoP was recognised at their monthly meeting, by the Federation of Wellington Progressive and Residents Association in February, and an independent review had been initiated. This was mentioned briefly in the President's Report to the Half-yearly General Meeting, Tuesday, 27 April 2004, which was addressed by yourself and Ann Webster. Regrettably Council officers advised that the necessary information would be unavailable until the DAP had been printed, which was expected just prior to the consultation programme.

Independent research however located all the relevant information leading up to, and incorporated in, the SoP approved at the Council meeting of 16 March 2004 (per the minutes). Regrettably, there was little evidence of a willingness by Council officers to facilitate this independent review, which is reflected in the comments in my formal submission. My oral submission on Thursday, 3 June 2004 specifically addressed the concerns associated with the Revenue and Funding Policy. Due to the unexpected reaction of Chris Parkin, Chair of the Council Audit and Risk Management Board, discussions took place later that day with Hayden Everitt (?) of your office, and Simon Lee of the Institute of Chartered Accountants. Those discussions centered on the treatment of the revaluation and depreciation of infrastructure assets and the implications this has on the Revenue and Funding Policy. The revaluation of land under roads to fair value, and treatment of all revaluations in the revaluation reserves was also discussed with Hayden Everitt on Monday this week.

The opportunity was also taken today to attend the Council Audit and Risk Management Board meeting to emphasise my concerns due to a report to their meeting on 17 March 2004. This report included letters from Council to the Institute of Chartered Accountants seeking clarification for public benefit entities of new and proposed Financial Reporting Standards – ED NZ IFRS 1: First-time reporting of International Financial Reporting Standards; and ED NZ IAS 16: Property, Plant and Equipment. From a certain perspective, these comments tended to confirm the concerns that had been referred to you in my original letter of 10 October 2003.

Could I suggest ~~therefore~~ that an informal meeting to discuss the above subject matter would be preferable to our present exchanges of correspondence. My persistence is prompted by an awareness of the potential affect on all New Zealand ratepayers should the depreciation practice of FRS-3 by public benefit entities be inappropriate. The final paragraph of your letter is salutary in acknowledging that there are few simple answers in today's accounting environment. I look forward to your response.

Yours sincerely

Subject: Re: [Fwd: OAG review of WCC Financials?]

Date: Sun, 27 Jun 2004 20:49:51 +1200

From: Bernie Harris <btharri@attglobal.net>

Organization: Bernard Harris & Associates

To: Ian Hutchings <Ian.Hutchings@wcc.govt.nz>

Ian

Thanks for your early response which was copied to other councillors.

My reason for seeking review is simple financial management with users paying for asset use. Assets paid for in toto from annual rates means current ratepayers pay the total price as well as the replacement cost by way of depreciation i.e. they pay twice. Your presumption that renewal is paid for from debt would be correct if no provision is being made for that renewal over its life cycle. No provision is being made from current depreciation charges because that provision is being spent in total each year, per the 10 year projections..

IAS-16, from which FRS-3 is derived, specifically refers to items of PP & E, whereas current application of FRS-3 by local authorities in NZ is by asset class e.g. roading, water and waste assets. This is a typically convenient interpretation by public authorities to facilitate the administrative process. Asset values in the public arena since 1989 have been 'introduced' on to the Balance Sheet and I have sought the authority for this practice. Notable silence!

I therefore contacted Neville Cowan who was the WCC Treasurer from 1986-91 asking how this valuation was effected. He admitted that the methodology had not been finalised before he vacated council in 1991, but indicated that Kevin Brady was the Council auditor with whom he was working on that exercise at the time. In my latest discussions with Hayden Everitt of OAG, he was unable to comment on how the infrastructure assets were initially brought on to local authority Financial Statements.

I discussed with ICA the practice of 'creating' entries on Balance Sheets and the acceptability of such practices. In double-entry accounting my understanding has always been that the net effect is a zero i.e. debit and credit figures offset one another. (There has been some comment about single-entry accounting on computer systems but this has actually meant keying in the entry only once, the computer completing the other entry.)

The infrastructure debate will revolve around the purpose of revaluations when the primary purpose of operating costs annually is primarily maintenance to retain the 'service potential'. Extending infrastructure assets is to meet development potential, not for existing users of that system. Short-term or long-term marginal costing is a methodology for calculating the viability of infrastructure capital expenditure.

One of my roles as a senior consultant with Price Waterhouse was their energy specialist. I have therefore been covering the current practice with retired partners and current partners with whom I worked. None have contested my observations. I have also been in discussion (twice) with their current representative on the FRSB. Kevin Simpkins of OAG, who is also a member of the FRSB, is aware of my contact with Price Waterhouse partners and PricewaterhouseCoopers.

Ian, I am not interested in scoring points, as I told the Audit and Risk Management Board on Thursday, 17th June. My only interest is that ratepayers only pay what is proper under current legislation, not what Council has decided they ought to pay.

Subject: Revenue and Funding Policy

Date: Mon, 21 Jun 2004 15:41:26 +1200

From: Bernie Harris <btharri@attglobal.net>

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To: Chris Parkin <chris.parkin@wcc.govt.nz>

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Chris


I had it drawn to my attention that the P & P Committee are meeting tomorrow to confirm the Basin Reserve Trust, the Revenue and Funding Policy and the Draft Annual Plan. I therefore visited the local library and have sighted the relevant papers.

Follow-up with OAG and the Institute of Chartered Accountants, after my submission on 3rd June, took place prior to my public participation before the Audit and Risk Management Board last Thursday. Despite the differences that might have been mentioned by John Milne at that meeting, he is unaware of the correspondence and phone discussions that had already occurred leading up to my attendance last week.

Attached is my response to the letter from OAG, mentioned in my submission (included in the Appendix to Report 2 for tomorrow). You should be aware that professional colleagues have been involved in these discussions and are fully supportive of the concerns being expressed. There have also been suggestions that the FRSB is not an omnipotent authority either. Your attention is particularly drawn to the identified distinction between 'for-profit' and 'public benefit' entities when international standards are being adopted.

Kind regards

Bernie

 OAG Final Draft.doc
Name: OAG Final Draft.doc
Type: Microsoft Word Document (application/msword)
Encoding: base64

Bernie Harris <biharni@aitglobal.net>
Principal
Bernard Harris & Associates