
DRAFT 2007/2008 FINANCIAL STATEMENTS AND PROPOSED SIGN-OFF PROCESS

1. Purpose

The purpose of this report is to obtain the agreement of the Subcommittee as to the proposed format and disclosures for the Council's 2007/08 financial statements and the associated sign-off process for those financial statements.

2. Recommendation

It is recommended that the Subcommittee:

1. *Receive the information*
2. *Note that the draft 2007/08 financial statements reporting template is being reviewed by Audit New Zealand and that their comments/recommendations will be adopted as appropriate.*
3. *Approve the proposed format and disclosures for the 2007/08 financial statements subject to:*
 - (a) *consideration of the implications of any changes in NZ GAAP arising up to 30 June 2008 which may be required to be applied retrospectively*
 - (b) *the determination and disclosure of the final results of operations, cashflows and financial position for the year ending 30 June 2008 (and any subsequent impact on the Notes to the financial statements); and*
 - (c) *receiving final clearance from Audit New Zealand.*
4. *Approve the sign-off process for the 2007/08 financial statements (refer Appendix 1).*

3. Background

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

Council Officers propose to prepare the 2007/08 Annual Report for adoption on 29 August 2008. In order to achieve this timeframe, a draft reporting template has been prepared for the Subcommittee's review. The reporting template identifies the proposed Financial Statement format and disclosures. This report also outlines the proposed sign-off process for the adoption of the 2007/08 Annual Report.

The draft 2007/08 financial statements reporting template (appendix two) is the second the Council has prepared in accordance with NZ IFRS. The template is currently being reviewed by Audit New Zealand as part of their financial statements audit for the year ending 30 June 2008.

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

4.1 Process

The template has been drafted by the Council's Financial Accounting team. The over-arching approach this year has been to focus on the readers of the financial statements and make incremental improvements without radical changes. Given that the reader has been subjected to significant change with the transition to NZ IFRS reporting in 2006/07 we believe that a period of consolidation is appropriate.

We are cognisant of the need to modify the presentation of the financial statements to maintain best practice and improve readability where possible. A process of review was undertaken looking at recently published annual reports prepared in accordance with NZ IFRS and other relevant material (NZ IFRS models, NZ IFRS updates and pending changes to NZ IFRS). In addition, prior to 30 June 2008, we will review the presentation and content of the financial overview and the annual report summary with a particular focus on developing the matrix approach introduced in 06/07.

It is important to note that the template reflects applicable NZ IFRS as at the date of preparation. As it will need to be updated to reflect ongoing amendments to NZ IFRS, the Subcommittee will not be able to finally approve the template until the time of completion of the 30 June 2008 financial statements.

4.2 Changes in the Financial Statements Template

The key changes to the financial statements include:

□ **Notes to the Financial Statements**

- *Note 11: Trade and other receivables* – a reordering and renaming of related party receivables. This change is due to the internal review of disclosures and presentation, but also in response to an increased emphasis by Audit New Zealand on related party disclosures.
- *Note 15: Intangibles* – Separate lines are now included for disposals at cost and for disposals at accumulated amortisation.
- *Note 18: Trade and other payables* – a reordering and renaming of related party payables. As for receivables this change is due to the internal review of disclosures and presentation, but also in response to an increased emphasis by Audit New Zealand on related party disclosures.
- *Note 19: Borrowings* – A change from presenting the movement in borrowing facilities from a reconciliation format to a presentation of facilities available, utilised and unutilised by type of facility. The reader will be able to see clearly where the movements have occurred and in which type of borrowing facility.
- *Note 29: Financial Instruments* – An average weighted effective interest borrowing rate has been added. This reflects the reduced interest applicable on borrowings due to the offset effect of Council's interest rate swap regime.
- *Note 35: Group Structure* – A revised presentation of the structure has been prepared to more clearly illustrate the make-up of the Council and Group reporting entities.
- *Note 37: Investment in Subsidiaries* – Following on from the changes in Notes 11 and 18 above, the intra-group transactions and balances have been moved to *Note 39: Related Party disclosures*. This has allowed a change of name for the note (formerly *Subsidiaries*), to be aligned to the investment disclosed in the Statement of Financial Position.
- *Note 38: Investment in Associates* – The same changes have been applied as for Note 37 above.
- *Financial impact of the first-time adoption of NZ IFRS* – As this is the second time reporting under NZ IFRS this note is no longer required.

5. Significant Issues affecting the Financial Statements for the year ending 30 June 2008

The only significant issues identified to date as part of the preparation of the financial statements for the year ended 30 June 2008 are as follows:

5.1 *Asset Revaluation*

The Council revalues certain classes of property, plant and equipment on a rolling three year cycle. Revaluations are staggered over the three year period to spread the cost and workload involved. Classes of property, plant and equipment due to be revalued as at 30 June 2008 are Infrastructure (drainage, waste and water, and roading), infrastructural land and library collections. Of the other classes subject to the revaluation model, operational land and buildings were last revalued at 30 June 2006. At this point, these classes will be two years into their three yearly revaluation cycle.

Investment properties will also be revalued at 30 June 2008, and adjustments will be made to the value of the reported Landfill post closure costs.

Audit New Zealand has advised that an area of focus is to review the off-cycle classes to ensure their fair values do not vary significantly from carrying values. We will review these classes, applying indices to determine whether there is any indication that fair values have shifted materially. We intend to complete this work early, and to accordingly seek confirmation from Audit New Zealand that the current revaluation cycle remains appropriate.

5.2 *Adoption of NZ IFRS*

Two entities within the Wellington City Council Group will adopt NZ IFRS for the first time during 2007/08. Wellington International Airport Limited will adopt for the 31 March 2008 financial year end, while Wellington Regional Stadium Trust will adopt for the 30 June 2008 financial year.

The Council worked with both entities to establish opening balance sheet implications for incorporation into our 30 June 2007 financial statements. We will seek early indication from these entities as to any significant variations from the previously advised position which will require adjustment in our 30 June 2008 financial statements.

5.3 *Operational Disestablishment of Positively Wellington Business (PWB)*

At 30 June 2007 the operational activities of PWB were passed to the Regional Economic Development Agency Limited and the accounts of PWB were therefore prepared on a disestablishment basis. During 2007/08 PWB has been undergoing a process of realisation of assets and payment of liabilities. We will work with PWB to assess the likely year end position and associated impact for the financial statements.

6. Year-end Financial Results

This report has focused on the template for the year-end financial statements and the disclosures contained therein. Any significant movements or issues arising from the year-end results will be reported to the Subcommittee during the scheduled year end meeting on 15 August 2008.

7. Proposed Sign-off Process for the 2007/08 Financial Statements

On the basis that the Subcommittee has been delegated the primary responsibility for the audit of the Council's Financial Statements, a proposed sign-off process and timetable has been developed in order to adopt the 2007/08 Annual Report. This is outlined in Appendix 1 to this report.

8. Conclusion

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

The attached financial statements reporting template has been prepared for the Subcommittee's review and approval, as part of the overall sign-off process for the 2007/08 Annual Report.

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

- consideration of the implications of any changes in NZ GAAP arising up to 30 June 2008 which may be required to be applied retrospectively
- the final determination and disclosure of the results of operations, cashflows and financial position for the year ending 30 June 2008 (and any subsequent impact on the Notes to the financial statements);
- reviewing the Statement of Service Performance, report on council-controlled organisations and report on mana whenua partnership; and
- receiving final audit clearance from Audit New Zealand.

In addition, it is recommended that the Subcommittee approves the proposed sign-off process as detailed in Appendix 1.

Contact officer: *Helen Rogers*
Financial Controller

APPENDIX ONE

Proposed Sign-Off Process and Timetable For The 2007/08 Annual Report

Date:	Action:
3 March 2008	Subcommittee to review and conditionally approve draft format for the 2007/08 financial statements and the proposed sign-off process.
10 March 2008	Audit New Zealand commence interim audit visit 1
3 June 2008	Audit New Zealand commence interim audit visit 2
4 August 2008	Audit New Zealand commence final audit fieldwork
11 August 2008	Consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2008 and financial position as at 30 June 2008 available for final internal review.
15 August 2008 (scheduled)	<i>Audit and Risk Management Subcommittee Meeting</i> Subcommittee to review consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2008 and financial position as at 30 June 2008, subject to Audit New Zealand clearance. Subcommittee to also review Statements of Service Performance, report on CCOs and report on mana whenua partnership. Subcommittee to recommend adoption of 2007/08 financial statements to Strategy and Policy Committee.
22 August 2008	<i>Audit New Zealand to issue letter of comfort to Strategy and Policy Committee as to whether an unqualified, or qualified, audit opinion will be issued.</i>
27 August 2008 (scheduled)	<i>Special Strategy and Policy Committee Meeting</i> Committee to recommend adoption of 2007/08 financial statements to Council.
29 August 2008 (scheduled)	<i>Council Meeting</i> Council to adopt 2007/08 financial statements.

Date:**Action:**

Management Letter of Representation issued to Audit New Zealand.

Audit New Zealand sign Audit Opinion.

Media Release – Financial Results for the year ending 30 June 2008.

29 September 2008

Release of published Annual Report.

APPENDIX TWO

Draft 2007/08 Financial Statements

Supporting Information

1) Strategic Fit/Strategic Outcome

This project supports Strategy 7: Governance: As per the Annual Plan, Governance includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.

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

Relates to C534: Committee and Council process

3) Treaty of Waitangi considerations

There are no Treaty of Waitangi implications

4) Decision-Making

This is not a significant decision

5) Consultation

a) General Consultation

Not required

b) Consultation with Maori

Not required

6) Legal Implications

None

7) Consistency with existing policy

This report is consistent with existing Wellington City Council policy