



Christchurch City Council

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

MONDAY 21 MARCH 2005

AT 3PM

IN THE CHAMBERS GROUND FLOOR MEETING ROOM, CIVIC OFFICES

Subcommittee: The Mayor, Mr Garry Moore,
Councillors Graham Condon, David Cox, Bob Shearing and Gail Sheriff.

Principal Adviser
Roy Baker
Telephone: 941-8540
Fax: 941-8572

Committee Secretary
Julie Sadler
Telephone: 941-8438
Fax: 941-8696

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1. ELECTION OF CHAIRPERSON**2. APOLOGIES**

Councillor Graham Condon and Councillor Bob Shearing (for lateness).

3. AUDIT NEW ZEALAND MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2004

General Manager responsible:	General Manager Corporate Services
Officer responsible:	Financial Services Manager
Author:	Paul Melton, DDI 941-8413

PURPOSE OF REPORT

1. The purpose of this report is to inform the Council of the significant findings and recommendations arising from the audit of the financial statements of the City Council and group for the year ended 30 June 2004.

EXECUTIVE SUMMARY

2. Audit New Zealand issued an unqualified audit opinion on the Council's Financial Statements for the period ended 30 June 2004 on 13 September 2004. This was in excess of two months earlier than previous years and is a significant achievement. The Christchurch City Holdings and Christchurch City Facilities financial statements were also prepared much earlier than normal. "These improvements are a credit to Council staff involved in the annual reporting process and also reflect the good working relationship between Council and group and Audit New Zealand."¹
3. The Management Report which is prepared each year by Audit New Zealand identifies the significant findings and recommendations arising from the audit.
4. The Report notes opportunities for the Council to improve its systems of internal control as it relates to manual timesheet entry, the reconciliation of the GRNI Account, Bank Reconciliations, Debtor follow-up and credit card expenditure.
5. The Report identifies accounting for leases, related entities and International Financial Reporting Standards as issues to address.
6. The Report also notes instances where the systems to record non financial data were inadequate.
7. Included within the Report is the management response to all the issues which have been raised. Where appropriate the management response notes the action which has/will be taken to resolve the issue.

MANAGEMENT REPORT

8. Refer to the attached copy of the Audit New Zealand Management Report for the year ended 30 June 2004.

CONCLUSION

9. The Council has delegated to this Subcommittee, the authority to receive this report after seeking clarification of any issues raised in the report. As part of performing its governance responsibilities on behalf of the Council, the Subcommittee can also raise any questions that it deems appropriate with the Audit New Zealand Director (Devan Menon) and Audit Supervisor (Richard Ng). Both Mr Menon and Mr Ng will be in attendance at the meeting.

STAFF RECOMMENDATION

That the Audit New Zealand Management Report be received.

4. INTERNATIONAL REPORTING STANDARDS (IFRS)

General Manager responsible:	General Manager Corporate Services
Officer responsible:	General Manager Corporate Services
Author:	Roy Baker, DDI 941-8540

PURPOSE OF REPORT

1. The purpose of this report is to inform the Audit and Risk Management Subcommittee of the legal requirement to adopt IFRS and advise of progress to date, and to seek the Audit and Risk Management Subcommittee's adoption of recommendations related to issues addressed to date.

CONTENT

2. Five papers are attached to cover this topic:
 - Paper 1: Conversion to IFRS Project
 - Paper 2: IFRS: Revaluation of Property Plant and Equipment (PPE)
 - Paper 3: IFRS: Capitalisation of Borrowing Costs
 - Paper 4: Decision Whether to Adopt Hedge Accounting
 - Paper 5: Decision Whether to Adopt Cost or Fair Value Accounting for Parent Investments in Subsidiaries

STAFF RECOMMENDATIONS

It is recommended to the Audit and Risk Management Subcommittee that:

- (a) NZ IFRS be adopted from 1 July 2006 (Paper 1).
- (b) The Council retain its existing policy with respect to revaluations of PPE with the trading entities required to adopt the same policy (Paper 2).
- (c) Trading entities that do not currently revalue Land and Buildings and Infrastructure Assets be required to do so for the year ended 30 June 2006 or equivalent (Paper 2).
- (d) The Council retain its existing policy of not capitalising borrowing costs and the trading entities adopt the same accounting policy (Paper 3).
- (e) Trading entities that do currently capitalise borrowing costs be required to discontinue this policy from 1 July 2005 (Paper 3).
- (f) There be a group accounting policy to the effect that where a group entity has entered into a derivative financial instrument for the purposes of hedging an underlying transaction, it will document the rationale and planned effectiveness of the hedge, and account for it as a hedge transaction within the context of NZ IAS 39 provided all the necessary conditions continue to be met² (Paper 4, Issue 1).
- (g) The use of the fair value option be the approach followed by the Council for accounting for investments in subsidiaries in its parent financial statements under NZ IFRS (Paper 5, Issue 2).

²

Much fuller disclosure of the policy will of course be required in practice – the PWC model financial statements for Footsy & Co Group provide a good example on pages 19 and 20 – but it is premature at this stage to start defining group policies on a piecemeal basis.