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**AUDIT AND RISK MANAGEMENT SUBCOMMITTEE  
21 MARCH 2005**

**A meeting of the Audit and Risk Management Subcommittee  
was held on Monday 21 March 2005 at 3pm**

- PRESENT:** Councillor Bob Shearing (Chairperson),  
The Mayor,  
Councillors David Cox and Gail Sheriff.
- IN ATTENDANCE:** Mr Robert Harris (Pricewaterhouse Coopers),  
Messrs Devan Menon, Richard Ng and Ken Boddy (Audit New Zealand).
- APOLOGIES:** An apology for absence was received and accepted from  
Councillor Graham Condon.

The Subcommittee reports that:

**PART C - REPORT ON DELEGATED DECISIONS  
TAKEN BY THE SUBCOMMITTEE**

**1. ELECTION OF CHAIRPERSON**

Councillor Bob Shearing was elected Chairperson of the Subcommittee.

**2. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

The General Manager Corporate Services submitted a report informing the Subcommittee of the legal requirement to adopt International Financial Reporting Standards (IFRS) and advising of progress to date in implementing the new standards. The report also sought the adoption of a number of recommendations relating to issues addressed to date.

The latest date that the Council group can adopt NZ IFRS is for the financial year commencing 1 July 2007. Management is proposing to adopt the new standards from 1 July 2006. However, the preparation of the Council's Long Term Council Community Plan (LTCCP) is governed by financial reporting standard, FRS-29, Prospective Financial Information. This requires that financial information is prepared on the basis that it is expected to be reported on which has to be NZ IFRS for at least nine of the ten years covered by the LTCCP. To prepare the LTCCP with the first year under existing NZ GAAP and the remaining years under NZ IFRS is extremely complicated, and more time consuming and expensive than the Council group adopting NZ IFRS is for the year ended 30 June 2007. Hence this recommendation was adopted.

A Council IFRS project team has been established with workstream teams dealing with specific accounting areas.

The workstream team addressing issues related to property, plant and equipment for the Council and its trading entities, had sought guidance from the Subcommittee on two issues that are reflected in the recommendations adopted below. Guidance was sought because the Council or Christchurch City Holdings Limited as the majority shareholder, can specify the accounting policies that the individual entities are to adopt in accounting back to their shareholders. As well, a common approach is required under NZ IFRS across the group as both Council's and Christchurch City Holdings Limited's consolidated financial statements must be prepared using the same accounting policies.

The two major areas where there have been different accounting policies followed for property, plant and equipment across the Council group have been in relation to including interest costs as part of the cost of property, plant and equipment and the revaluation of major categories of assets.

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The recommendations adopted by the Subcommittee with respect to NOT including interest costs as part of the cost of property, plant and equipment reflected that currently only one entity in the group currently capitalises borrowing costs. The other entities have not because of the significant additional costs that are involved, the fact that it does not affect cashflows and it only affects the timing and not the quantum of interest costs expensed.

The recommendations adopted by the Subcommittee with respect to revaluation of major categories of property, plant and equipment reflect that the Office of the Auditor-General has sent guidance expressing his belief that local authorities will not be in compliance with the financial management provisions of the Local Government Act 2002 if they do not periodically revalue their major categories of property, plant and equipment. Effectively, the Council has no alternative other than to continue to revalue its major categories of property, plant and equipment in both its own and its consolidated financial statements. This policy also reflects sound commercial practice and promotes greater accountability to stakeholders.

With respect to both policies, early adoption of the changes was recommended to avoid having to account under one policy for the year ended 30 June 2006 and then have to restate those financial results under the new policies for the comparative year when the Council group adopts NZ IFRS. The work involved in doing this would be substantial.

The larger entities within the Council group currently hedge their major interest rate and foreign currency exposures in accordance with their treasury management policies. Under existing NZ GAAP, the changes in value of the hedging instruments are generally not charged against the operating surplus for the year. The recommendation proposed by the workstream team addressing issues related to financial instruments for the Council and its trading entities and adopted by the Subcommittee essentially enables the current treasury management policies to account for on a similar basis to which they are now except that greater documentation is required and that the fair value of all derivatives will be shown on the entity's balance sheet.

The Subcommittee requested staff to report back when the analysis had been completed to enable the Subcommittee to determine how best to brief key stakeholders on the impact of the new standards on the trading enterprises.

The Subcommittee **resolved** that:

- (a) NZ IFRS be adopted from 1 July 2006.
- (b) The Council retain its existing policy with respect to revaluations of PPE with the trading entities required to adopt the same policy.
- (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.
- (d) The Council retain its existing policy of not capitalising borrowing costs and the trading entities adopt the same accounting policy.
- (e) Trading entities that do currently capitalise borrowing costs be required to discontinue this policy from 1 July 2005.
- (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 met.
- (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.

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

Consideration was given to the above report for the year ended 30 June 2004.

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 more than two months earlier than previous years. The Christchurch City Holdings Ltd and Christchurch City Facilities Ltd Financial Statements were also prepared much earlier than normal. The Management Report comments: *"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."*

The Management Report which is prepared each year by Audit New Zealand identifies the audit findings and recommendations arising from these findings. These findings do not alter the unqualified opinion which is published on page 18 of the 2004 Annual Report.

The Management Report notes opportunities for the Council to improve its systems as they relate to manual timesheet entry, the reconciliation of the GRNI Account, bank reconciliations, debtor follow-up, credit card expenditure and the recording of non financial data.

The report also identifies accounting for leases, related entities and International Financial Reporting Standards as issues.

Included within the report is the management response to all those matters raised. Where appropriate the management response notes the action which has/will be taken to resolve the matter.

Arising from a discussion on the authorisation of credit card expenditure, it was **decided** that in future the Chief Executive's credit card expenditure would be authorised by the Chairperson of the Audit and Risk Management Subcommittee.

The Financial Services Manager updated the Subcommittee on the licensing agreement for the GEMS System and advised that the Council now had a concurrent licence for 305 users and that GEAC had agreed to subsidise the remaining 95 users.

The Subcommittee **resolved** that the Audit New Zealand Management Report be received.

**4. RISK MANAGEMENT**

At the request of the Subcommittee, the General Manager Corporate Services undertook to report to a future meeting, on the Subcommittee's risk management role.

**5. RESIGNATION - JOHN MACKEY**

Paul Melton informed the Subcommittee that John Mackey had resigned to take up the position of Tax Manager with Deloitte in Christchurch in May 2005. Paul paid tribute to the significant contribution that John had made to the preparation of the Annual Report for the past seven years and the effort he had put into obtaining a clear audit report.

The members recorded their appreciation to John and wished him well in his new position.

The meeting concluded at 4.15pm

**CONSIDERED THIS 14TH DAY OF APRIL 2005**

**MAYOR**