

5. Report of the Audit Office



Mokau Vista

**AUDIT REPORT
TO THE READERS OF
WAITOMO DISTRICT COUNCIL AND GROUP'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2010**

The Auditor-General is the auditor of Waitomo District Council (the District Council) and group. The Auditor-General has appointed me, Bruno Dente, using the staff and resources of Deloitte, to carry out the audit on her behalf. The audit covers the financial statements, the performance information and the District Council's compliance with the other requirements of Schedule 10 of the Local Government Act 2002 that are included in the annual report of the District Council and group for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- The financial statements of the District Council and group on pages 78 to 127:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the District Council and group's financial position as at 30 June 2010; and
 - the results of operations and cash flows for the year ended on that date.
- The performance information of the District Council on pages 11 to 17, 29, 33 to 36, 39 to 40, 43 to 45, 49 to 50, 52 to 54, 56, 58 to 60, 65 to 68, 71 to 72 and 74:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the District Council's levels of service performance for the year ended 30 June 2010, including:
 - the levels of service performance as measured against the intended levels of service performance adopted in the long-term council community plan; and
 - the reasons for any significant variances between the actual service performance and the expected service performance.
- The District Council and group have complied with the other requirements of Schedule 10 of the Local Government Act 2002 that are applicable to the annual report, and that are included in the District Council and group's financial statements and performance information, and on pages 18, 22 and 26 to 75 under the headings Group of Activities (section 3) and Statement of Compliance and Responsibility (section 1.3) and Iwi Consultation (section 1.4.7).

The audit was completed on 8 October 2010, and is the date at which our opinion is expressed.

The basis of our opinion, which refers to the serious financial difficulties being experienced by one of the Group's subsidiaries, is explained below. In addition, we outline the responsibilities of the Council and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements, the performance

information and the other requirements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, the performance information and the other requirements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements, the performance information and the other requirements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether the significant management and system controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported financial and performance data;
- reviewing significant estimates and judgements made by the Council;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied;
- determining the appropriateness of the reported performance information within the Council's framework for reporting performance; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the performance information and the other requirements.

We evaluated the overall adequacy of the presentation of information in the financial statements, the performance information and the other requirements. We obtained all the information and explanations we required to support our opinion above.

Serious Financial Difficulties

In forming our unqualified opinion, we considered the disclosure relating to going concern as set out in the statement of accounting policies on page 82 of the financial statements. The Council has noted that while the group financial statements have been prepared on a going concern basis, the going concern assumption of the Council's subsidiary, Inframax Construction Limited (Inframax) is dependent on two key factors:

- continued support from the lender; and
- Inframax's ability to meet its forecast performance.

At 30 June 2010 Inframax was in breach of its borrowing covenants. The Council has fully written off its investment in Inframax and is currently pursuing options to sell its investment.

The Council is forecasting dividend flows from Inframax in future years which if they don't occur will mean the Council will need to find alternative funding.

In addition to the challenges posed by Inframax being in serious financial difficulties the Council has noted other challenges that the Council is facing as follows:

- the impact of the reduction in the level of road renewals as disclosed on page 12 of the annual report;
- the impact of the reduction in service levels across a range of activities as disclosed on page 6 of the annual report; and
- the need to implement a sustainable approach to the operation and renewals of the Te Kuiti wastewater treatment plant as disclosed on page 13 of the annual report.

Responsibilities of the Council and the Auditor

The Council is responsible for preparing financial statements and performance information in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the District Council and group as at 30 June 2010. They must also fairly reflect the results of operations and cash flows for the year ended on that date. The performance information must fairly reflect the District Council's levels of performance for the year ended 30 June 2010.

The Council is also responsible for meeting the other requirements of Schedule 10 of the Local Government Act 2002 and including that information in the annual report. The Council's responsibilities arise from section 98 and Schedule 10 of the Local Government Act 2002.

We are responsible for expressing an independent opinion on the financial statements, the performance information and the other requirements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 99 of the Local Government Act 2002.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit and in carrying out the audit of the long-term council community plan (LTCCP), and an amendment to the LTCCP, we have no relationship with or interests in the District Council or any of its subsidiaries.



Bruno Dante
Deloitte
On behalf of the Auditor-General
Hamilton, New Zealand

Matters relating to the electronic presentation of the audited financial statements, Performance Information and the other requirements

This audit report relates to the financial statements, performance information and the other requirements of Waitomo District Council for the year ended 30 June 2010 included on Waitomo District Council's website. The Council is responsible for the maintenance and integrity of Waitomo District Council's website. We have not been engaged to report on the integrity of Waitomo District Council's website. We accept no responsibility for any changes that may have occurred to the financial statements, performance information and the other requirements since they were initially presented on the website.

The audit report refers only to the financial statements, performance information and the other requirements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements, performance information and the other requirements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements, performance information and the other requirements as well as the related audit report dated 8 October 2010 to confirm the information included in the audited financial statements, performance information and the other requirements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

6. Inframax Construction Ltd



Arorangi Reserve, Awakino Valley

6.1 Inframax Construction Ltd Statement of Performance Measures for the year ended 30 June 2010

The results achieved compare with the performance criteria contained in the Statement of Corporate Intent as follows:

Financial Performance

	Statement of Corporate Intent	Actual Achievement
Return on net assets	2%	-18%
Equity ratio	41%	31%
Dividend and Subvention Payment	\$0	\$0

The Return on net assets ratio is the ratio of net profit before tax (after adding back subvention payments) expressed as a percentage of average net assets.

The Equity ratio is the ratio of average shareholder's funds expressed as a percentage of average total assets.

Average assets and average shareholder's funds are based on 30 June 2009 and 30 June 2010 figures.

Non-financial Performance

	Statement of Corporate Intent	Actual Achievement
Lost time injury accident (LTIA) rate	0.00	3.90

The Lost time injury accident rate is a measurement of the effectiveness of the Company's health and safety policies. It is calculated as the number of lost time injury accidents per million hours worked.

A serious accident in September 2009 lifted the LTIA rate to 3.90 hours per million hours worked. Significant improvements have been incorporated into the company systems as a result of this accident.

6.2 Inframax Construction Ltd Statement of Comprehensive Income for the year ended 30 June 2010

	2010 Actual \$000's	2009 Actual \$000's
Total Revenue	41,858	53,285
Total Expenditure (including Depreciation and Interest)	43,196	59,434
Subvention payment	0	0
Net Profit / (Loss) Before Tax	(1,338)	(6,149)
Company Tax/(Credit)	169	(1,228)
Net Profit / (Loss) After Tax	(1,507)	(4,921)

7. Appendices



The Shearer Statue - Rora Street, Te Kuiti

7.1 Waitomo District Profile

District Background

The Waitomo County Act was passed in 1904 and the first meeting of the Waitomo County Council was held in September 1905.

The Borough of Te Kuiti was constituted in 1910.

In 1922 the Awakino County was amalgamated with the Waitomo Council in an area of the then Otorohanga County to form a separate local authority.

Part of the Kawhia County was included with Waitomo County in 1956 and the balance incorporated with Otorohanga.

The Te Kuiti Borough and Waitomo County Councils were amalgamated to form the WDC on 1st April 1976, and although minor changes to boundaries occurred with the 1989 reorganisation, the District remains substantially unchanged.

The present WDC was reconstituted on 1st November 1989 as a result of the local government reorganisation process that occurred across New Zealand.



District History

The town of Te Kuiti and the majority of the Waitomo District is situated within the King Country, a large tract of the western central North Island. The name King Country arose because this was the region in which King Tawhiao sought refuge after the Waikato land wars. He prohibited the entry of Europeans to the area.

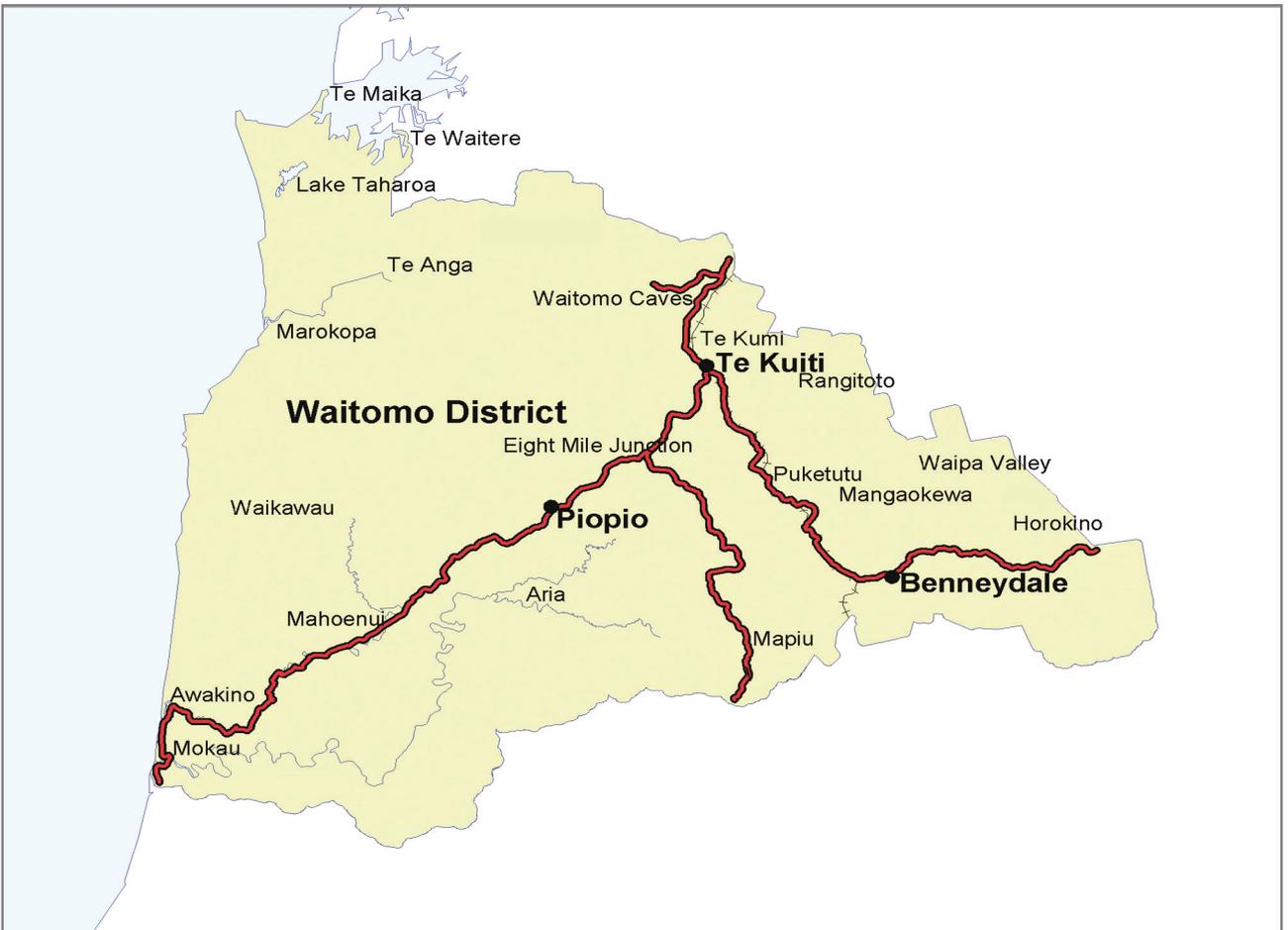
To the Maori people the region was known as Te Rohe Potae. Within Te Rohe Potae there were five tribes who signed an agreement with the Crown, which eventually allowed the North Island Main Trunk Railway line to come into the area. The five tribes were Ngati Maniapoto, Ngati Hikairo, Ngati Raukawa, Ngati Tuwharetoa and Whanganui.

It was also to this area that the rebel Te Kooti fled in 1871, and in return for sanctuary left as a gift for the Maniapoto people, Te Tokanganui-a-noho, the carved meeting house which now stands at the south end of Te Kuiti's main street. Te Kuiti was also the headquarters for paramount Maniapoto chiefs, Wahanui Huatere and Taonui who were instrumental in the opening up of the King Country to the railway and the North Island Main Trunk Railway line.



Te Kuiti lies on an area known to Maori as Pukenui. The original Te Kuiti was situated at the mouth of the Mangaokewa Gorge, just below where the Mangaokewa River emerges, from the higher country through ramparts of limestone.

Situated in a pleasant valley with this narrow gorge at the south end, Te Kuiti's original name was Te Kuiti O Nga Whakaaro O Te Iwi, meaning the narrowing down or thoughts of the people.



Sourced from LINZ data. Crown and Critchlow Copyright reserved. Census boundaries from Statistics NZ.

7.2 District Statistics

Location

Latitude:	38° 21' South
Longitude:	175° 11' East of Greenwich
Altitude:	55m above mean sea level
Area:	336,357 hectares (3363.57 sq km)

Climate

Temperature Summer Average	18.5°C	Winter Average	9.5°C
Sunshine Mean Average	1,749 hours		
Rainfall Average	1,473mm per year		
Frosts Average	47 days per year		

Population Analysis (www.elections.org.nz)

Total Population (as per www.elections.org.nz)	9,441
Electors (as per www.elections.org.nz)	5,793

Rating Statistics

Total Rates Revenue 2009/10 (excluding Penalties)	Budget	\$13,843,000
	Actual	\$13,776,000
Total Rateable Capital Value as at 30 June 2010	\$3,054,410,400	
Total Capital Value as at 30 June 2010	\$3,634,074,050	
Number of Rateable Properties as at 30 June 2010	5537	

Public Debt Outstanding

30 June 2010 (Actual)	\$37,974,000
30 June 2010 (Budget)	\$47,782,000

Public Equity

30 June 2010 (Actual)	\$241,963,000
30 June 2010 (Budget)	\$249,352,000

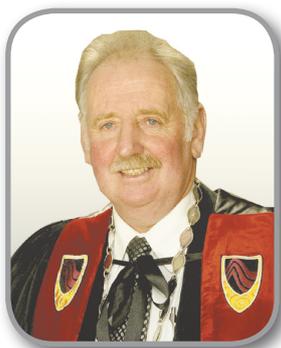
Other Information

Number of Building Consents 2009/10	204
Value of Building Consents 2009/10	\$15,157,696
Total District Roading Sealed (June 2010)	449 kilometres
Total District Roading Unsealed (June 2010)	561 kilometres
Registered Dogs Total (30 June 2010)	3,781



Visitors - Tatsuno Japanese Gardens

7.3 Elected Representatives



Mayor Mark Ammon
41 Waitete Road, TE KUITI
Phone: (07) 878 0800 (Business);
(07) 878 6359 (Home)
Fax: (07) 878 7771



Deputy Mayor
Pat Hickey (Urban Ward)
1604 Te Kumi Road, TE KUITI
Phone: (07) 878 3408 (Business);
(07) 878 6316 (Home)
Fax: (07) 878 3409



Peter Keeling
(Rural Ward)
166 Paekaka Road R D 2,
PIOPIO 3970
Phone: (07) 878 5236 (Business);
(07) 877 8779 (Home)
Fax: (07) 878 7157



Brian Hanna
(Rural Ward)
160 Tate Road, RD2, TE KUITI 3982
Phone: (07) 877 7227
Fax: (07) 877 8407



Pauline Ryan
(Urban Ward)
6 South Street, TE KUITI
Phone: (07) 878 8072 (Business);
(07) 878 6797 (Home)
Fax: (07) 878 8072



Sue Smith
(Rural Ward)
313 Te Waitere Road, R D 8,
TE KUITI
Phone: (07) 876 7518
Fax: (07) 876 7518

7.4 Glossary of Terms and Acronyms

Activity	The goods or services that WDC provides to the Community.
Annual Report	A document that WDC prepares each year which provides the public with information on the performance of the WDC during the year (in both financial and non-financial terms).
Assets	Assets are things that WDC owns, such as roads, parks, buildings and cash holdings.
Asset Management Plan	A planning document that combines management, financial, strategic and engineering techniques to ensure an asset continues to provide the desired level of service to its customers at the lowest long term cost.
Capital Expenditure	The term used to describe expenditure on assets (land, infrastructure, plant and equipment) that will provide benefit to the Community for a period greater than 12 months.
Capital Value	The sum of the unimproved value (land value), and the value of the improvements is equal to the capital value of the land.
Community	A network of people and organisations linked together by common factors. This might refer to a network of people linked by place (that is, a geographic community), common interest or identity (for example, a Hapu, a voluntary organisation or society), or an administrative community (such as a District).
Community Outcomes	The Community's view of what is important for its current and future social, economic, environmental and cultural well-being as identified through a special consultative procedure. These outcomes inform the development of WDC's planning and co-ordinate the activities and planning of all sectors of the community.
Community Well-beings	One of the main purposes of councils, as stated in the LGA 2002, is to promote the social, economic, environmental and cultural well-being of communities, in the present and for the future. These four aspects are known as the 'four community well-beings'.
Corporate Support	Used to describe the inputs that are used by all of WDC's activities.
WDC	The seven elected members that form the governing body (WDC) of the WDC.
WDC Organisation	Any organisation in which one or more local authorities own or control any proportion of the voting rights or have the right to appoint one or more of the directors, trustees, etc.
WDC Controlled Organisation	Any organisation in which one or more local authorities own or control 50 percent or more of the voting rights or have the right to appoint 50 percent or more of the directors of the organisation.
WDC Controlled Trading Organisation	A council-controlled organisation that operates a trading undertaking for the purpose of making a profit.
Current Assets	Assets that can be readily converted to cash, or will be used up during the year. These include cash, stock, debtors, and operational investments.
Current Liabilities	Creditors and other liabilities due for payment within the financial year.
Designated Investments	Investments representing Special Funds and Reserve Accounts.
Development Expenditure	A form of capital expenditure that refers to an investment in an asset to improve its value. The investment in the asset results in the asset's condition being better than when it was first purchased, or built by WDC. This does not include renewing old assets to their original state; these are classed as renewal works.
Exception Annual Plan	A document adopted by WDC in each of the years between LTPs which sets out the budget and sources of funding for the year and reports on any exceptions from those forecast in the LTP.
Infrastructural Assets	Fixed utility systems that provide a continuing service to the Community and are not generally regarded as tradable. WDC's infrastructural assets consist of roads, waste disposal systems, sewerage, stormwater systems and landfill assets.
Key Performance Indicators	Targets set by WDC to enable the Community to monitor WDC's progress towards agreed outcomes each year. A table of performance measures is provided in each activity section.
Levels of Service	WDC has Levels of Service that it has agreed to provide to the Community. Examples include the number of times reserves are mowed per year or response times to customer concerns. Operational levels of service are stated in the activity sections of the Waitomo District WDC Long Term WDC Community Plan (LTP).
Level of Service Expenditure	A form of capital expenditure that refers to an investment in an asset to improve its value as a result of improving the service that the asset provides to the community. The level of service investment in the asset results in the asset's condition being better than when it was first purchased or built by WDC. This does not include improvements to assets as a result of increased need or demand for that asset due to growth, this is classed as Development Expenditure; or renewal of old assets to their original state, which is classed as Renewal Expenditure.
Local Government Act 2002	The Key legislation that defines the regulations and responsibilities for local authorities.
2006-16 Long Term WDC Community Plan	A plan covering a period of 10 years (2006-2016), developed by the WDC and describing what the WDC will do to contribute to the achievement of Community Outcomes. An LTP describes what the WDC will do over the ten year period, why it plans to do these things, how much these things will cost including how they will be funded and how success will be judged.

2009-19 Long Term Plan	A plan covering a period of 10 years (2009-2019), developed by the WDC and describing what the WDC will do to contribute to the achievement of Community Outcomes. An LTP describes what the WDC will do over the ten year period, why it plans to do these things, how much these things will cost including how they will be funded and how success will be judged.
Operations Expenditure	The expenditure required to meet the costs of normal day-to-day services provided by WDC. This includes expenditure resulting from inputs on such items as contract costs, materials, electricity and plant hire.
Operating Revenue	Money earned through WDC activities in return for service provided, or by way of a grant or subsidy to ensure particular services or goods are provided. Examples include Land Transport New Zealand (LTNZ) Financial Assistance Rates (FAR) subsidies, rental income and fees and charges.
Operating Surplus	An accounting term meaning the excess of income over expenditure. Income and expenditure in this context excludes "capital" items such as the receipt of repayment of intergeneration loans, the cost of capital works and transfers to and from reserves. An operating surplus is inclusive of non-cash items such as income and expenditure owing but not paid (debtors and creditors) and depreciation.
Outputs	Goods and services the WDC will produce or provide to achieve agreed outcomes.
Renewal Expenditure	A form of capital expenditure that describes WDC's ongoing programme of works, which is aimed at maintaining the District's assets in a good condition by 'renewing' them back to their original state.
Separately Used or Inhabited Part	A separately used or occupied part of a rating unit includes any part of a rating unit that is used or occupied by any person, other than the ratepayer, having a right to use or inhabit that part by virtue of a tenancy, lease, licence, or other agreement, or any part or parts of a rating unit that are used or occupied by the ratepayer for more than one single use. As a minimum, the land or premises intended to form the separately used or inhabited part of the rating unit must be capable of actual habitation or actual separate use. For the avoidance of doubt, a rating unit that has only one use (i.e. does not have separate parts or is vacant land) is treated as being one separately used or inhabited part.
Stakeholders	People, groups and or organisations that have an interest in what happens in the District.
Strategic Goals	WDC has set Strategic Goals for each of its activities. These goals are targeted at ensuring WDC's work programmes are promoting the achievement of Community Outcomes. The goals are long-term and in most cases will take many years to achieve.
Sustainable Development	Development that meets the needs of the present without compromising the reasonably foreseeable needs of future generations.
Targeted Uniform Annual Charge	A targeted rate based strictly on a uniform amount set for each separately used or inhabited rating unit, within a defined (targeted) area, e.g. stormwater, solid waste kerbside collection, etc.
Uniform Annual Charge	A service charge that is levied on each separately used or inhabited rating unit, e.g. solid waste management, sewerage, water supply, etc.
Uniform Annual General Charge	Uniform Annual General Charge that is levied on all separately used or inhabited rating units in the District.
Waitomo District Council	Waitomo District WDC: the organisation established to administer WDC affairs, conduct operations and bring effect to WDC policy and strategies.

Acronyms

AMP	Asset Management Plan	NAASRA	National Association of Australian State Rooding Authorities
AP	Advisory Panel	PHRMP	Public Health Risk Management Plans
Capex	Capital Expenditure	RTO	Regional Tourism Organisation
CCO	Council Controlled Organisation	SUIP	Separately Used or Inhabited Part
COs	Community Outcomes	SWaMMP	Solid Waste (asset) Management and Minimisation Plan
DWS	2005 Drinking Water Standards	SWSS	Sanitary Waste Subsidy Scheme
EAP	Exceptions Annual Plan	TKWWTP	Te Kuiti Waste Water Treatment Plant
EW	Environment Waikato	TUAC	Targeted Uniform Annual Charge
FAR	Financial Assistance Rates	UAC	Uniform Annual Charge
ICL	Inframax Construction Limited	UAGC	Uniform Annual General Charge
KPI	Key Performance Indicator	WDC	Waitomo District Council
LGA 2002	Local Government Act 2002	WDHB	Waikato District Health Board
LoS	Level of Service		
LTP	Long Term Plan		
LTNZ	Land Transport New Zealand		
MoH	Ministry of Health		