

Report to the Governing Body on the audit of  
**Greater Wellington Regional Council**  
for the year ended 30 June 2009

**Audit New Zealand has performed this audit on behalf of the Controller and Auditor-General.**

**We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.**

**Our audit has been carried out in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that is not material in terms of your financial statements.**

**The implementation and maintenance of your systems of controls for the detection of these matters remains the responsibility of the Council and management.**

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## **Executive Summary**

for the audit for the year ended 30 June 2009

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### **Audit opinion**

An unqualified audit opinion was issued on the Regional Council's financial statements.

### **Management control environment**

We assessed the Management Control Environment as "effective" and found all major financial controls continue to operate effectively.

### **Compliance with legislation**

We identified one minor breach in legislation – the Statement on Intent for WRC Holdings was not delivered to the Council until 9 May 2009. The statutory deadline in the Local Government Act 2002 is 1 March 2009.

For details on legislative compliance see section 3 of this report.

### **Issues for your attention**

We found improvements are still required to the IT environment however we are pleased to note that a plan is in place to address these deficiencies. Refer to section 4 of this report for more details.

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## **Management Report to the Governing Body**

for the audit for the year ended 30 June 2009.

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Audit New Zealand has completed the interim audit of the Greater Wellington Regional Council (the Regional Council) for the year ended 30 June 2009. This report summarises our findings from the financial audit and draws attention to areas where your organisation is doing well or could improve.

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## 1 Audit opinion

We issued an unqualified opinion on the Regional Council's financial statements.

## 2 Management Control Environment

### 2.1 Background

The management control environment is determined by the attitude, awareness and actions of the governing body, management and others, who have the ability to influence the reliability of control systems concerning the importance of internal controls.

The control environment encompasses the entity's control culture and values, organisation and governance structures and its commitment to designing and maintaining reliable accountability systems. It also includes its attitude and approach to planning, budgeting, performance monitoring and compliance with legislative requirements. These translate into internal control procedures that are established to provide reasonable assurance that entity objectives will be achieved. The internal controls build into the following processes:

- Governance structures and mechanisms.
- Risk management.

- Financial planning, budgeting, reporting and monitoring.
- Operational financial controls.
- Quality assurance procedures.

The stronger the management control environment, the greater the likelihood that these processes at different levels within the organisation will operate as designed and that organisations' objectives will be achieved.

## 3 Our approach

Our approach for the audit of the financial statements was, where possible, to place reliance on the Regional Council's control environment and management systems, with a view to minimising the level of detailed transaction testing performed.

### 3.1 Assessment

We found that, consistent with previous years, the Regional Council continues to operate a sound management control environment and there are effective financial management processes in place. We have identified the following as some of the key aspects of the management control environment:

- The Regional Council and management have demonstrated a commitment to appropriate management control systems being in place and operating effectively. This includes both the maintenance of essential transactional recording systems as well as detailed financial analysis and management reporting throughout relevant levels of the Council.

- Budgeting and monitoring of financial performance is very effective due to the systems and processes in place. A key aspect of this is the role of the divisional accountants in budgeting and monitoring processes and the central finance team reviewing budgets and treasury management on a Regional Council wide basis.

- There is an experienced executive team which displays a consistent level of commitment to maintaining a strong control environment.

- The Regional Council's governance structures provide a clear division of responsibilities between the Regional Council and management.

- The Regional Council maintains an established annual planning process, which includes regular reviews of the Regional Council's

long-term financial strategy, and a substantial public consultation process.

- There are sound structures and robust processes through which financial performance against budgets is monitored by both management and the Regional Council.

## **4 Compliance with legislative requirements**

### **4.1 Legislative compliance systems**

We reviewed the Regional Council's overall approach to identifying and complying with legislative requirements. We also reviewed compliance with specific legislative obligations directly related to the Council's annual planning and reporting processes.

The Regional Council has a system in place to provide positive assurance for compliance with legislation. We reviewed this system and supporting documentation held by the Secretariat and found the system was operating effectively. The Regional Council is also working on updating and making its existing procedures easy to understand.

## 4.2 Breaches of legislation

During our audit we identified one breach of legislation. This is as follows:

Schedule 8 Statements of Intent, paragraph 2 of the Local Government Act 2002 requires the board of a council controlled organisation to deliver to its shareholders a draft statement of intent (SOI) on or before 1 March each year. WRC Holdings Ltd and its subsidiaries draft SOI was not delivered to its shareholder, the Regional Council until 25 May 2009.

### Management comment

*The delay in providing the SOI was a deliberate decision. The timetable was extended to allow up to date information to be received from CentrePort. The directors of CentrePort considered their Statement of Corporate Intent (SCI) on 30 April 2009.*

## 4.3 Fraud policy

The Auditor-General expects every public entity to formally address the issue of fraud, and to have in place an appropriate policy on how to minimise fraud and how to deal with fraud if it occurs.

The Regional Council has an appropriate fraud policy and has started to carry out transaction reviews on areas susceptible to fraud, for example review of

financial and payroll systems conducted by PriceWaterhouseCoopers.

We encourage the Regional Council to continue to review areas susceptible to fraud and ensure all staff has a good awareness of the policy.

### Management comment

*Greater Wellington engaged PriceWaterhouseCoopers to undertake a fraud review on our payroll and financial systems during 2008/09. No significant matters of concern were found.*

## 5 Matters arising from the audit

### 5.1 Information systems

As part of our 2007/08 audit we reviewed the controls surrounding the IT environment. We identified a number of weaknesses:

- The Regional Council does not have an overarching IT strategic plan, information security policy and procedures for program changes. We understand they are being developed.
- The Regional Council's vendor management policy is not written down. As a result practices across the organisation may be inconsistent.

The newly appointed Information Technology Manager is reviewing the Regional Council's policies and procedures in this area.

We will update our findings and assessment after the work has been completed.

**Management comment**

*Greater Wellington is currently preparing an IT Strategic Plan which will be completed in the New Year.*

*IT system responsibilities, security polices and processes are being reviewed as part of the overarching policies review.*

*Access to the Regional Council's network is governed by the IT security policy which is appropriately managed.*

*For non IT vendors these are authorised by Finance upon application from divisional accountants. Vendors which have not been used within a specified time are blocked in the system. All major IT vendor managed systems have Service Level Agreements in place which not only limits financial transactions but makes them very transparent. We believe these procedures are adequate.*

**5.2 Role of Audit Committee**

The name of the Regional Council's audit committee is the Finance, Audit and Risk Committee (the

Committee). We reviewed the Committee terms of reference against the four main principles set out in the Auditor-General's Good Practice Guide: *Audit Committees in the Public Sector* (the Guide):

- independence;
- competence;
- clarity of purpose; and
- open and effective relationships.

We supplemented this review from our knowledge of attending the Committee

Overall the Committee demonstrated principles of best practice including:

- all members are independent of the management team;
- Chairperson is not the Chair of the main Council;
- members have relevant skills and experience;
- committee has clear terms of reference; and
- providing assurance on risk management framework is included within the terms of reference.



We identified the following areas where the Committee could be improved:

**Monitoring of reviews completed at the Regional Council**

The Regional Council is subject to a number of assurance reviews as part of its business. The Committee may not receive all of these assurance reviews as often it is more appropriate for them to go to a specialist committee.

We recommend that the Committee receives on a regular basis a report summarising the scope, findings, recommendations and actions taken of any assurance reviews. This would allow management to make an assessment of whether the Regional Council are exposed to any significant risks not covered by the Regional Council's risk management system.

**Responsibilities in the terms of reference**

It is good practice to review the Committee's terms of reference from time-to-time.

We recommend the Regional Council review the Terms of Reference for the Committee to ensure they are consistent with current practice.

**Independence of the decision making process**

The Committee is involved in approving the reserve transfers within equity, ie transfers from uncommitted equity to reserves. This involvement means the Committee is not fully independent of the decision making process and therefore scrutiny of this function is compromised.

We recommend that the Regional Council review the appropriateness of the Committee's role in carrying out this task.

**Management comment**

*Management will summarise in a report any assurance reviews undertaken that have not been reported to the Committee.*

*The terms of reference for the Committee were last reviewed in October 2008, it is likely that they will be reviewed again prior to the elections in 2010.*

*Recommending reserve transfers to Council is part of the Committee's terms of reference. The Council then approves (or otherwise) the transfers. We believe this is appropriate action for the Committee.*

## **6 Follow up of issues raised in the Planned Audit Approach for Council**

### **6.1 Rail Project**

The Regional Council is managing a rail project to bring 96 electric multiple units (EMUs) into operation in 2010. This involves extensions and modifications to signals, platforms and tunnels are required before the trains become operational. The project is currently undergoing the final design phase and testing of major components. The Greater Wellington project team remains focused on ensuring a quality design process is delivered promptly to reduce risks associated with changes in design. The current revised

project budget and forecast for this project is \$236 million this includes variations.

We will continue to monitor progress in this area.

#### **Management comment**

Noted.

#### **Asset revaluation**

The Regional Council revalued its Water Supply assets on 1 July 2008. This resulted in an upward movement of \$45 million. We reviewed the valuation to ensure it was carried out in accordance with NZ IAS 16 Property, Plant and Equipment. The valuation was compliant with NZ IAS 16 with the exception of assets with a value of \$0.5 million within the class being excluded from the valuation. We assessed this departure as not material as the asset base was \$309 million before the valuation. Assets excluded were minor in nature with low expected movements.

We recommend that future valuations carried out by the Regional Council are fully compliant with NZ IAS 16.

#### **Management comment**

*A small number of assets were not valued due to their recent purchase date.*

### Reassessment of fair value of assets

Flood protection assets were last revalued 30 June 2007. The Regional Council reviewed the movements in these assets using indices and using the knowledge of Asset Managers within the Regional Council and found the movement was not material and therefore formal valuation was not carried out. We reviewed this process and agree with the Regional Council's assessment.

#### Management comment

Noted.

### 6.2 Transfer of fixed asset register to SAP

The Regional Council intended to fully utilise the Fixed Asset Register module within SAP and has transferred the detailed data relating to water infrastructural assets from Hansen to SAP.

This project has been delayed and we will review the data transfer next year.

#### Management comment

*Water has now gone live in respect of SAP asset management the assets are now being transferred into SAP.*

### 6.3

#### Asset Management Plans

As part of our LTCCP audit we carried out a review of the Regional Council's asset related management plans (AMPs) and the environment within which they operate. We used the framework and processes for asset management set out in the International Infrastructure Management Manual (the manual) prepared by the National Asset Management Steering Group (NAMS) as a basis for the assessment.

We considered:

- the Regional Council's corporate context for asset management planning;
- the quality and reliability of data and information in asset management plans, including financial forecasts;
- proposed levels of service and the arrangements for measuring attainment; and
- the Regional Council's approach to lifecycle management, improvement planning and review and audit.

Our review comprised the analysis of a self-assessment undertaken by the Regional Council, review of the Council's asset management plans for Parks and Forests and Passenger Transport. We also performed a cursory review of the Greater Wellington Rolling Stock Ownership Plan (May 2008)

produced by Greater Wellington Rail Limited (GWRL) and had interviews with selected asset managers and other staff.

We found:

- The Regional Council does not have a corporate asset management policy defining its approach, and the role of asset management in the wider planning of the Council, nor a coordinated approach to asset management planning across its activities. We appreciate that the Regional Council has a wide variety of assets. However, a corporate policy setting out the general approach and role of asset planning would be useful to provide a level of consistency across the organisation.
- The Parks and Forests asset management plan is largely unchanged since it was developed in 2001. The service levels in the plan have remained and this reflects the underlying reality. However, the expenditure numbers have been updated as part of the Regional Council's LTCCP process and then yearly through the Annual Plan.
- The Greater Wellington Rolling Stock Ownership Plan does not cover the areas that good practice asset management requires.

We understand however that this Plan was never intended to be an asset management plan as such.

We are of the view that the clarity and completeness of levels of service, particularly the customer levels of service needs to be more articulate. The Regional Council does not present a consistent view on how its assets in respect of Parks and Forests contribute to:

- its community outcomes and strategic objectives;
- legislative requirements that set the minimum level of service that must be provided; and
- sustainable development.

We carried out additional work which confirmed that the underlying asset information used to prepare the LTCCP was reasonable

We were aware of the likely outcome of our assessment of the Parks and Forest Plan at the early stage of the audit and had carried out a more detailed evaluation of the source and reliability of the underlying asset information used to prepare the LTCCP.

We found that each division has a reliable asset database which has the information the Regional Council needs to manage its assets. Each division also has a management accountant who prepares the detailed budgets for the division. The information used to prepare the financial and

performance information in the LTCCP is reasonable. Service levels have been reviewed by the operational divisions as part of the LTCCP development process.

While we were able to perform other substantive work to satisfy ourselves that the financial and non-financial information in the LTCCP is reasonable, we urge the Regional Council to improve its asset management planning and to bring its asset management plans up-to-date.

We have provided a detailed report for management which details the work we performed on Parks and Forest asset management planning. The report will also contain recommendations on areas for requiring attention and improvement.

#### **Management comment**

*We will consider preparing a corporate asset management policy but note that any policy can only prepared at a high level due to the diversity of our assets.*

*Most asset types in the Parks and Forest asset management plan are not of a critical nature. For example, a forest track is built to a standard and then over time the vegetation encroaches and needs trimming. The frequency of trimming can depend on a number of factors, some of which are subjective. Missing a trim by a few months are unlikely to create a health and safety*

*issue, nor will the minor change in the service level be noticeable to most people.*

*For the assets that are critical, for example bridges, there is a rigorous inspection and recording procedure. This process is up to date – inspections have been carried out and maintenance either completed or in the process of being completed.*

*In the last 10 years, there have been no new asset types added to the inventory. There have been areas of land added but these are not significant in terms of the total 50,000 or so hectares managed as parks and forests. The additional land is similar in nature to the existing lands.*

*Water Supply, Parks and Forests became a new Division of the Council in 2006. A Parks Asset Management position was created reporting to the Asset Engineer and a start was made on reviewing the Parks Asset Management Plan. About a year later, two decisions were made by the Council:*

- *To standardise the asset management information into the Council's SAP Management System*
- *To prepare a new Parks Network Strategy, the first major review since the 1970s.*

*As a result of these decisions, it was decided to slow down the process of reviewing the Parks Asset Management Plan. A new plan will be completed by 30 June 2010.*

**6.4 Performance framework**

During the audit we primarily focussed on Regional Council's reporting against the levels of service as set out in the 2006/16 LTCCP [Schedule 10 clause 15(e)(1)]. Where the 2008/09 Annual Plan disclosed a different level of service, the Regional Council needed to consider reporting against both the LTCCP and Annual Plan to provide full transparency and meet reporting obligations.

We found that apart from one reported result for transport, which was subsequently addressed, there are systems in place for measuring performance against levels of service set out within 2006/16 Annual Plan.

**Management comment**

Noted.

**6.5 Employee severance payments**

Employee settlements in the public sector continue to draw attention. The Auditor-General's report *Severance Payments in the Public Sector* (May 2002) remains the point of reference for severance payments.

We reviewed all severance and redundancy payments that occurred during the year.

No issues were noted.

**6.6 Funding arrangements and procurement**

The Regional Council has a formal procurement policy in place and our Specialist Assurance Services team completed an Independent Probity and Quality Assurance review on the tender for Real Time Information System. No issues were found with the tendering procedures.

For the Regional Council's information the Auditor-General published a report on Public Sector Purchases, Grants and Gifts: *Managing Funding Arrangements with External Parties; and Procurement Guidance for Public Entities.*

**Management comment**

Greater Wellington has a range of policies and procedures for managing purchases, grants and gifts, these include:

- *Procurement Strategy for Bus and Ferry Services (NZTA approved).*
- *Greater Wellington Purchasing Policy.*
- *Performance based contracts with Iwi organisations*
- *Greater Wellington Sensitive Expenditure Policies which cover provision of gifts to staff, external providers and suppliers.*

We believe that these policies cover the matters raised in the Auditor-General's report.

### 6.7 Managing conflicts of interest

During the course of the audit we remained alert for conflicts of interest.

There were no conflicts of interest identified.

### 6.8 2009/19 Long Term Council Community Plan

We audited the 2009/19 LTCCP statement of proposal and the final LTCCP and signed unqualified audit reports on 9 March 2009 and 9 June 2009.

### 6.9 Local Authority Exemptions for Council Controlled Organisations (CCOs)

We have been asked to advise the OAG on Council's use of Section 7 of the Local Government Act 2002. Under section 7 of the LGA 2002, a local authority may exempt a "small" CCO from the accountability regime that applies to CCOs under that Act.

The Council has not exempted any CCOs.

### 6.10 Annual Report Adoption and Public Release Dates

We have been asked to note the dates that the Council adopts its annual report, and makes the full and summary annual reports available to the public. This information will be forwarded to the Office of the Auditor-General.

Council made the full annual report and summary report available to the public on 30 October 2009.

### 7 Status of issues raised in previous management reports

There are no unresolved issues from 2007/08 Governing Body Letter except for improvements required to the Information Systems Control Environment detailed in section 5.1 to this report.

### 8 Unadjusted misstatements

The financial statements are free from material misstatements, including omissions.

However, during the course of the audit, we detected:

- Certain immaterial misstatements that are individually and collectively not material to the financial statements and the statement of service performance.

- Certain immaterial disclosures, required by generally accepted accounting practice that has been omitted from the financial statements.

We have discussed these with management who are of the view that they do not need to be adjusted.

We have detailed these items in Appendix 1, together with management's rationale for not making adjustments to the Annual Report.

We are satisfied that these are individually and collectively immaterial.

## 9 Statement of auditor independence

We confirm that, for the audit of the financial statements of the Regional Council for the year ended 30 June 2009, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants (NZICA).

During the year we undertook an assurance assignment reviewing the tendering processes over the Real Time Information System. We also performed an audit of the Regional Council's Long Term Council Community Plan.

Other than the assurance assignment and the audit of the Regional Council's Long Term Community Plan, we have no relationship with or interests in the Regional Council or any of its subsidiaries.

### 9.1.1 Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

### 9.1.2 Other relationships

We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Regional Council or any of its subsidiaries that is significant to the audit.

We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Regional Council or any of its subsidiaries during or since the end of the financial year.



## Appendix 1: Unadjusted misstatements

Current year misstatements (Including explanation why not corrected)	Assets		Liabilities		Equity		Income Statement	
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>Council</b>								
Provision for doubtful debts (rates) not required		572,000		-				(572,000)
<b>Management comment</b> <i>This adjustment was not made because Council believes that the provision is appropriate.</i>								
<b>Contingent liabilities</b>								
Overstated by \$412,000								
Contingent liabilities included where there is no past event.								
<b>Management comment</b> <i>This adjustment was not made because Council did not deem this material.</i>								