

**Greater Wellington Regional Council –
Discussion with Audit, Risk and
Assurance Committee**

**Proposed audit approach
for the year ending 30 June 2016**

Overview

We are completing our planning for the 2015/16 audit of the Greater Wellington Regional Council and subsidiaries (the Regional Council).

We have met with the Regional Council Chair, Audit, Risk and Assurance Committee Chair, Chief Executive, CFO and other General Managers to ensure we have an up-to date understanding of any changes in the business that might impact on the audit.

We will conclude our planning discussions with a meeting with the Audit, Risk and Assurance Committee on 11 May 2016.

We have set out on the following pages a high level view of the proposed areas of focus for 2015/16. We look forward to discussing these with the Audit, Risk and Assurance Committee.

- Business Risks and areas of audit focus
- Other areas of focus
- Wider audit mandate for public sector audits

We have also attached a high level proposed audit timetable. This is being discussed with the finance team.

Business Risks and Areas of Audit focus

For 2015/16 we have identified the following as areas of audit focus:

Public Transport Operating Model	We will monitor the progress of the programme through periodic meetings with the transport group. We will focus on procurement activity to ensure that it complies with the Regional Council's policies and good practice.
Project governance arrangements	We will update our understanding of the Regional Council's governance arrangements and practices. Additionally, we will: <ul style="list-style-type: none">• Review the Regional Council's governance arrangements for consistency with best practice.• Review a sample of significant activities, to ensure that appropriate governance arrangements are in place, and assess whether the governance procedures are being complied with.
Property, plant and equipment fair value assessment	We will review the Regional Council's assessment of whether there is any material difference between the carrying amount and fair value of its assets. If there is a material difference and a revaluation is required, we will discuss this with you.

Areas of interest for local authorities

The attached appendix sets out a little more detail about areas of sector interest, which are:

- Use of information
- Mandatory performance measures
- Investment and asset management
- Elections
- Possible LTP amendments
- Rates
- Fraud (see also following page)
- Management override
- Elected member remuneration
- Severance payments
- Sensitive expenditure
- Conflicts of interest

Fraud

Our responsibilities as your auditor include obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

In this respect two types of intentional misstatements are relevant:

- Misstatements resulting from fraudulent financial reporting; and
- Misstatements resulting from misappropriation of assets.

In addition to our usual enquiries of management, we will make enquires of the Audit, Risk and Assurance Committee as to:

- How the Audit, Risk and Assurance Committee on behalf of the Commissioners, exercises oversight of:
 - Management's processes for identifying and responding to the risks of fraud (for both fraudulent financial reporting and misappropriation of assets); and
 - Internal controls that management has established to mitigate these risks.
- Whether the Audit, Risk and Assurance Committee members have knowledge of any actual, suspected or alleged fraud.

We will refresh our understanding prior to the completion of the audit.

Audit timetable

We are currently in the process of agreeing the audit timetable, and associated audit requirements, with the Finance team.

Key dates will line up with your proposed meeting dates as you wish:

2 May 2016	Interim visit for two weeks
11 May 2016	Audit, Risk and Assurance Committee meeting – Discuss proposed audit approach
22 June 2016	Interim management report (with management comments) to Audit, Risk and Assurance Committee
15 August 2016	Final audit begins (3 weeks)
6 September 2016	Audit clearance given (Audit, Risk and Assurance Committee meeting)
30 September 2016	Audit opinion issued (Regional Council meeting)
30 September 2016	Draft final management report (with management comments) to Audit, Risk and Assurance Committee

Appendix 1: Areas of interest for all local authorities

As well as the risks and issues noted above, there are also a number of other concerns common to the Local Government sector. The table below outlines our areas of interest for this year's audit. The left-hand column describes each matter and the reasons for our interest. In the right-hand column, we describe how we plan to address each matter during the audit.

Areas of interest	Our audit response
Use of information	
<p>The Office of the Auditor-General's (OAG) work programme theme for 2016/17 will be Information. There is an expectation that public entities are making good use of the information they have to provide better public services, both now and in the future.</p> <p>Investment in improving the information and technology systems supporting the collection, maintenance, and analysis of business critical information is enabling public entities to transform their service delivery in ways not previously possible.</p>	<p>As part of gathering baseline information for the OAG's 2016/17 programme we will update our understanding of the Council's use of information. This will include the identification of significant changes and improvements over time in the Council's use, analysis, and/or management of information.</p>
Mandatory performance measures	
<p>The Non-Financial Performances Measures Rules 2013 promulgated by the Department of Internal affairs specify a set of standard performance measures for local authorities.</p> <p>The measures were included in the Council's 2015-25 long term plan, and must be reported against in the 2016 annual report.</p>	<p>We will assess the Council's reporting against these mandatory measures as part of our overall audit of the performance framework.</p>
Investment and asset management	
<p>Following the release of the 2015 report: <i>Matters arising from the 2015-25 local authority long-term plans</i> the Office of the Auditor-General remains interested in the investment and asset management practices of local authorities.</p> <p>Investment and asset management are important to the Council's delivery of services. Managing both investment and assets are critical to ensure public money is being invested appropriately.</p>	<p>We will update our understanding of the Council's investment and asset management practices.</p> <p>We did not raise any recommendations for the Council during our audit of the 2015-25 Long Term Plan.</p>

Areas of interest	Our audit response
Council's governance role over Council Controlled Organisations (CCOs)	
<p>CCOs are responsible for meeting the accountability requirements of the Local Government Act 2002 (LGA). This includes preparing a Statement of Intent (SOI) with appropriate involvement from their parent Local Authorities.</p> <p>Local Authorities are responsible for the effective oversight of their CCOs. This includes monitoring their CCOs' performance and reviewing and commenting on their draft SOIs within the timeframe in the LGA.</p> <p>Local Authorities should ensure that they have a clearly articulated rationale for their investment in their CCOs.</p>	<p>We will review the Council's arrangements for effectively fulfilling its oversight responsibilities relating to its CCOs. This includes establishing the rationale for its investment in its CCOs and the monitoring of their performance.</p>
Elections	
<p>With the election in October, the Council needs to be careful that the content of the annual report and summary annual report (as well as any other publications issued by Council) cannot be seen as electioneering.</p> <p>We encourage the Council to consider how it will manage the need to maintain ordinary business and continue to carry out its statutory responsibilities, while ensuring that its resources are not used, or perceived as being used, to give electoral advantage.</p>	<p>We will discuss how the Council plans to manage the risks associated with the election. We will also review annual and summary reports to ensure they are appropriate if issued prior to the election.</p>
Possible LTP amendments	
<p>Certain Council decisions can only be taken if provided for in a long-term plan. The following changes trigger an amendment to the long term plan that is required to be audited:</p> <ul style="list-style-type: none"> • a significant change to services levels section 97 (1)(a); or • to transfer ownership of a strategic asset section 97(1)(b); or • a significant change to the revenue and financing policy section 103(4). 	<p>We will remain alert for possible amendments requiring audit throughout the year. We will maintain contact with management and discuss potential amendments as they arise.</p> <p>We also plan to review the Council's 2016/17 annual plan, so that we are aware of the nature and extent of any changes being proposed, and can consider whether these trigger an amendment to the LTP which we need to audit.</p>

Areas of interest	Our audit response
Rates	
<p>Rates are the Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge.</p> <p>Due to prior year issues and concerns over rating practices in the local government sector as a whole, in the 2015 audit we focused our attention on the Council's compliance with rating legislation and regulations.</p>	<p>For 2016 we will again consider the Council's compliance with aspects of the LGRA that materially impact on the financial statements.</p> <p>We stress that our review of compliance with legislation is completed for the purposes of expressing our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of our audit, and our expertise as auditors. The Council has responsibility for ensuring that it complies with applicable laws and regulations.</p>
Fraud	
<p>The auditing standard ISA (NZ) 240, <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i>, issued by the External Reporting Board requires that we make enquiries:</p> <ul style="list-style-type: none"> • of entity management; and • those charged with governance on matters such as their assessment of the risk of fraud and the accounting and internal control systems designed to prevent and detect frauds. <p>We have previously explained to the Council the representation we will ask them to sign near the completion of the audit in relation to fraud. We will continue to require this representation.</p> <p>The main fraud risk factor in the local authorities sector during the last two years was internal controls being overridden or not being followed. The most common methods used to commit frauds involved:</p> <ul style="list-style-type: none"> • submitting fraudulent expense claims; • forging documents; • stealing plant or equipment; and • stealing cash. 	<p>We will undertake formal discussions with the Chief Executive, senior managers and the Council on matters concerning fraud risk awareness, identification of susceptible areas and the mitigating controls that the Council has put in place.</p> <p>Please notify us without delay of any serious fraud suspected or discovered.</p> <p>When considering the Council's system of internal control to prevent and detect fraud, we will also consider the:</p> <ul style="list-style-type: none"> • quality of documented delegations, authorisation and approval procedures and whether these are followed in practice; • adequacy of procurement policies and procedures particularly around how any conflict of interest is detected and managed; and • quality of documented sensitive expenditure policies and whether these are followed.

Areas of interest	Our audit response
Management override	
<p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud.</p>	<p>We will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We will review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>For any significant transactions that are outside the normal course of business, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit, we will evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.</p>
Elected members - remuneration and allowances	
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a local authority's policy on allowances and expenses.</p> <p>Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period. A local authority must disclose remuneration paid or payable to each member from both the local authority and any council organisation of the local authority.</p>	<p>We will assess the Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.</p>

Areas of interest	Our audit response
Impairment assessment for property, plant and equipment and other fixed assets	
<p>PBE IPSAS 21 <i>Impairment of Non-Cash-Generating Assets</i> and PBE IPSAS 26 <i>Impairment of Cash Generating Assets</i> require assets held at cost to be assessed for indicators of impairment on an annual basis. PBE IPSAS 17 <i>Property, Plant and Equipment</i> requires revalued assets to be carried at a revalued amount that does not differ materially from fair value as at reporting date.</p> <p>In addition, the value of work in progress (WIP) on projects that span an extended period of time needs to be assessed for impairment regularly over the period of the project.</p> <p>The relevant standards provide guidance on indicators that an asset may be impaired, and how impairment should be recognised.</p> <p>We expect the Council to have completed an impairment assessment to determine whether any assets will need to be impaired. This assessment needs to be made at an early stage, to avoid the risk of this becoming a significant issue at a late stage in the audit.</p>	<p>We will review the Council's assessment of whether there are any indicators of impairment, and the resulting accounting treatment if applicable.</p>
Severance payments	
<p>The Auditor General's 2012 report <i>Severance Payments: A guide for the public sector</i> is the point of reference for severance payments. This report discusses the risks facing public sector employers when they make voluntary payments to employees (especially at the end of the employment relationship) and suggests a principled approach to employment settlements, aimed at reducing those risks.</p> <p>Clause 33 of schedule 10 to the Local Government Act 2002 requires certain disclosures in relation to severance payments.</p>	<p>We will examine a sample of severance payments made to employees as part of exit settlements – especially when senior former staff are the recipients – to ensure a principled approach has been followed in reaching settlement.</p> <p>Our focus will be on settlements which could be seen to be, excessive or unusual. For example, this would include settlements which include a large tax free payment, or provide a guaranteed contract role for the departing employee. We will also examine any payments significantly in excess of contractual entitlements.</p> <p>We will confirm the accuracy and completeness of any disclosures.</p>
Sensitive expenditure	
<p>Appropriate expenditure in the public sector remains an area of significant public interest.</p>	<p>We will check to see whether there have been any changes to the Council's sensitive expenditure policy and will carry out testing on expenditure to ensure compliance with the sensitive expenditure policy.</p>

Areas of interest	Our audit response
Conflicts of interest	
<p>Conflicts of interest are an area of concern from two perspectives; probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks. Guidance for entities in this area includes the OAG's publications:</p> <ul style="list-style-type: none"> • <i>Managing conflicts of interest: guidance for public entities</i>, explains how to understand conflicts of interest in the public sector, and how to identify, disclose, and manage them. It also considers both the legal and ethical dimensions of conflicts of interest. • <i>Guidance for members of local authorities about the local authorities (Members' Interests) Act 1968</i>, provides more specific guidance for Councillors. <p>The Local Authorities (Members' Interests) Act 1968 controls the making of contracts between Councillors and the Council and prohibits Councillors from participating in Council matters in which they have a pecuniary interest.</p>	<p>While it is primarily the responsibility of the Council to identify and manage conflicts of interest, in the course of our usual audit work we will remain alert for conflicts of interest</p> <p>It is important that both the Council and councillors identify and manage compliance with the Local Government (Members' Interests) Act 1968.</p>

Appendix 2: Additional information about the audit

Our reporting protocols

Management reports

We will provide a draft of all management reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the Council.

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the Council's governing body that specify the reasons why the corrections will not be made.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report and one printer's proof copy of the annual report.

How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the Council's financial statements or general accountability. Our audit does not cover all of the Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.