

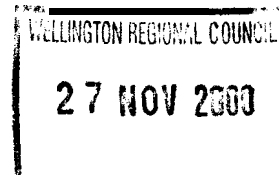


**Audit New Zealand**  
*Te Tari Arotake o te Motu*  
**Wellington Office**  
**Level 9**  
St Paul's Square  
45 Pipitea Street  
Thorndon  
Private Box 99  
Wellington  
New Zealand  
Telephone +64-4 496 3099  
Facsimile +64-4 496 3195

Our ref: W010 O0J

23 November 2000

Mr H Stone  
General Manager  
Wellington Regional Council  
PO Box 1 1-646  
WELLINGTON



Dear Howard

## **AUDIT FOR THE YEAR ENDED 30 JUNE 2000**

### **1 INTRODUCTION**

We have completed the audit of Wellington Regional Council ("the Council") for the year ended 30 June 2000. This letter provides a summary of:

- ▲ the audit opinion
- ▲ our assessment of your financial and non financial management
- A our assessment of your compliance with legislative requirements
- ▲ significant issues arising from the audit

### **2 AUDIT OPINION**

An unqualified audit opinion was issued on the Council's financial statements on 26 October 2000.

### **3 FINANCIAL AND SERVICE PERFORMANCE MANAGEMENT**

Our assessment of aspects of the Council's financial and service performance management is set out in the table below. Issues identified in the "comments" column are reported more fully in sections 5 and 6 of this letter, or in reports already issued to management. An explanation of the assessment terminology is included in Appendix One.

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Management Aspect	Assessment	Comment
Financial control systems	Good <i>(1 999: Good)</i>	The Council has strong controls surrounding the individual systems that process financial data. It has maintained this environment throughout the implementation of SAP. The Council is to undertake a formal internal review of the application of the purchase order system as part of the overall review of the purchasing processes.  The Council has implemented a new fixed asset register in respect of Water Infrastructure assets.
Financial management information systems	Excellent <i>(1 999: Good)</i>	The Council has an excellent IS/IT control environment.  There was no disruption to critical business systems as result of Y2K/ leap year rollover.  The Council is in the process of revising its Corporate Emergency Plan.
Financial management control environment	Excellent <i>(1999: Excellent)</i>	The Council has excellent higher level controls including: <ul style="list-style-type: none"> <li>A A Policy and Finance Committee</li> <li>▲ Quarterly reporting processes</li> <li>A Bottom up, integrated budgeting processes</li> <li>A Self review</li> </ul>
Service performance information and information systems	Good <i>(1 999: Good)</i>	The Council has good systems to record service performance (non-financial) data and the internal controls to ensure the completeness and accuracy of the data and the appropriateness of the performance measures.  We reviewed the Council's performance measures as stated in the WRC ten-year plan (2000-2010) and are satisfied that they are appropriate. A focus on more qualitative measures would further enhance the Council's statements of service performance.
Service performance management control environment	Excellent <i>(1999: Excellent)</i>	The Council has excellent higher level controls including: <ul style="list-style-type: none"> <li>▲ Operations policies and decisions</li> <li>A Quality assurance</li> <li>A Planning processes</li> <li>A Policy and Finance Committee</li> </ul> Performance measures that link to the day to day management of the Council.

#### **4 COMPLIANCE WITH LEGISLATIVE REQUIREMENTS**

We have reviewed the systems and procedures that you employ to identify and comply with legislative requirements.

With the exception of the ongoing technical breach of legislation arising from the Council's continued ownership of the Waterloo Interchange, we did not note any instances of non-compliance with legislation.

#### **5 AREAS OF AUDIT EMPHASIS**

##### **5.1 Revaluation of water assets**

The water supply infrastructure assets were revalued as at 1 July 1999. We are pleased to note that the treatment and disclosure of the revaluation is in accordance with GAAP.

In addition the revised detailed listing of assets that formed an integral part of this exercise will provide improved information for use in the Water Asset Management Plan.

##### **5.2 Wellington Regional Stadium Trust**

The outcome of this issue is still uncertain and we will maintain a close watch on any progress made. We are satisfied that there is adequate disclosure of this item in the 30 June 2000 annual report.

#### **6 MINOR ISSUES ARISING FROM THE AUDIT**

##### **6.1 Annual leave balances**

###### **Recommendation**

The Council establish a system to actively manage its outstanding leave liability in the interests of financial management and staff welfare.

###### **Findings and analysis**

A review of annual leave balances has identified a significant increase in the liability from 30 June 1999. At 30 June 2000, we identified that there were 55 (1999: 18) staff with an annual leave balance in excess of 35 days, of which 4 (1999: 3) had balances in excess of 60 days. A timely review of individual annual leave balances could prevent balances accumulating to high levels. Employees with excessive leave balances should provide an action plan on how they intend to reduce their leave balance. High leave balances pose a significant liability to the Council, which increases with salary increments.

High levels of outstanding leave can indicate one of a number of issues. It could be an indicator that there is a lack of succession planning, in that there is a lack of ready

replacements to cover while key staff take leave. It may indicate that there are system problems with the mechanisms to capture and record leave taken. Unwillingness to take leave has also been known to be an indicator of fraudulent activity. Management may also wish to be aware from a staff welfare perspective, of any reasons why staff are not provided with sufficient opportunities to take leave.

#### **Client comment**

*Steps have already been taken to ensure annual leave balances are more actively managed in future.*

### **6.2 Other minor issues**

Other minor issues arising from the audit have been included in a separate letter to the Chief Financial Officer.

## **7 REVIEWS ON BEHALF OF THE CONTROLLER AND AUDITOR-GENERAL**

### **7.1 Sale and Lease of Council Land**

Councils have general powers under the Local Government Act 1974 (LGA) to acquire and maintain property that is necessary for the efficient and effective performance of their functions, powers and duties. In the case of regional councils the property they own must directly relate to their functions.

Councils have express powers to sell, exchange or lease council land. Legal requirements governing disposal of council land depend on the status and the history of the land.

The focus of the review was on;

- A Sale or exchange of council land (s230 LGA)
- A Lease of council land (s23 1 LGA)
- A Sale or lease of council land for commercial or industrial purposes (s572 LGA)

The review was performed in consultation with O'Brien Property Consultants. Our findings indicate that there are appropriate systems in place to ensure that correct processes are followed where land is leased or sold.

No breaches of legislative requirements were noted.

### **7.2 Compliance with Sections 122T, U and V of the Local Government Act 1974**

The regime for compliance with the requirements of sections 122T and U focuses on disclosure of changes, errors and variations arising between one annual plan and the next. Section 122V focuses on the annual report requiring that the extent to which

objectives and provisions of plans and policies have been met and the reasons for variations explained.

These provisions, although apparently small, are important to the overall effectiveness of the Part VIIA Financial Management provisions because they are a means of monitoring and reporting on the achievement of plans and policies. They provide a key means of accountability to communities by elected members for the strategic choices they have made.

The Office of the Auditor-General undertook this review as a benchmark on the basis that the Council is held out as a 'model' local authority. The results of the review confirmed this basis.

## 8 ACKNOWLEDGEMENT

I would like to express our appreciation for the assistance provided to us by your staff during our interim audit. If you have any queries on the above matters, please do not hesitate to contact me 496 3025.

I would appreciate your formal (written) comments on the issue raised in section 6.1 of this report.

Yours sincerely



Erica Mason  
Director

cc Greg Schollurn, Chief Financial Officer

APPENDIX ONE

MANAGEMENT ASPECTS ASSESSMENT TERMINOLOGY

Definition of gradings

Assessment term	Further explanation
Excellent	Works very well; no scope for cost-beneficial improvement identified
Good	Works well; few or minor improvements only needed to rate as excellent. We would only recommend improvements where benefits exceed costs
Satisfactory	Works well enough, but improvements desirable. We have recommended improvements in this and/or other reports for action during the coming year
Just adequate	Does not work well at all. Improvements recommended for action as soon as possible.
Not adequate	Does not work; needs complete review. We have recommended major improvements, in this report, for urgent action
Not applicable	Not examined or assessed

Definition of terms

Term	Definition
Financial control systems	These are the individual systems that process financial data. For example, processing payments (expenditure and creditors), billing system (revenue and debtors), asset management (Fixed Asset Register) and general ledger. This covers controls surrounding the processing of these transactions to ensure the completeness and accuracy of data.
Financial management information systems	This is the IS/IT control environment. This includes such things as: <ul style="list-style-type: none"> <li>▲ IS/IT strategic planning</li> <li>A Disaster recovery provisions</li> <li>a Data integrity</li> <li>a Access controls</li> <li>a Programme change controls</li> <li>a Physical security of hardware and software</li> </ul>

Term	Definition
Financial management control environment	<p>These are the upper level controls and include such things as:</p> <ul style="list-style-type: none"> <li>A Financial management policies and procedures</li> <li>A Self review (including Internal Audit)</li> <li>A Assurance (Audit) Committees</li> <li>A Budgeting processes</li> <li>a Cashflow forecasting</li> <li>a Exceptions reporting</li> <li>a Other assurance measures</li> </ul>
Service performance information and information systems	<p>These are the systems to record service performance (non-financial) data and the internal controls (manual and computer) to ensure the completeness and accuracy of the data, and the appropriateness of your performance measures.</p>
Service performance management control environment	<p>These are the upper level controls and include such things as:</p> <ul style="list-style-type: none"> <li>a Operations policies and procedures</li> <li>a Quality assurance (where appropriate)</li> <li>a Planning processes</li> <li>a Assurance (Audit) Committee</li> <li>a Self-review (including Internal Audit)</li> <li>a Exception reporting</li> <li>a Other assurance processes</li> <li>a Whether performance measures link into the day-to-day management of your entity</li> </ul>