

1 February 2006

Attachment 1 to Report 06.8
Page 1 of 18 pages

Ian Buchanan
Chairman
Greater Wellington Regional Council
PO Box 11-646
WELLINGTON

Level 8, St Paul's Square
45 Pipitea Street, Thorndon
Private Box 99, Wellington

Email: info@auditnz.govt.nz
www.auditnz.govt.nz

Tel: (04) 496 3099
Fax: (04) 496 3195

Dear Ian

GREATER WELLINGTON REGIONAL COUNCIL AUDIT FOR THE YEAR ENDED 30 JUNE 2005

■ INTRODUCTION

We have completed the audit of Greater Wellington Regional Council ("the Council") for the year ended 30 June 2005. This letter provides a summary of:

- m the audit opinion
- m our assessment of your financial and non financial management
- m our assessment of your compliance with legislative requirements
- significant matters arising from the audit.

We wish to emphasise that the implementation of the recommendations contained in this report are subject to management's judgement as to cost versus related benefits.

2 AUDIT OPINION

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

3 FINANCIAL AND SERVICE PERFORMANCE MANAGEMENT

Our assessment of aspects of the Council's financial and service performance management is summarised in the table below. This assessment is entirely voluntary for the Local Government audit sector.

Issues identified in the "comments" column are reported more fully in Appendix One of this letter, or in the reports already issued to you. Explanations of the assessment terminology are included in Appendix Three.

Whilst there have been some marginal grade changes this year, we regard the assessment scores of 'Good' and 'Excellent' as indicative of a continued sound overall performance in underlying systems of control.

Management aspect	Assessment	Comment
Financial control systems	Good (2004: Excellent)	<p>The Council has a good control environment. Our work in this area indicated the following:</p> <ul style="list-style-type: none"> ■ Sound controls operate over Council's key financial systems. ■ Formal delegations are in place and are appropriate. ■ Key asset management plans operate in the nature of working documents. This allows Council to more effectively manage key assets and feed appropriate information into planning documents. ■ We are satisfied with the level of controls over the purchasing system and sensitive expenditure. <p>However, we have outlined several areas in Appendix I, which require improvement. Our recommendations include the following:</p> <ul style="list-style-type: none"> ■ A review of the rates collection process employed by Territorial Authorities. ■ An independent review of month end reconciliations including a review of manual journals processed. ■ The retention of payroll masterfile change reports. ■ The review of data entered from the fixed asset module to the general ledger.
Financial management information systems	Excellent (2004: Excellent)	<p>Overall the information systems to support the operational activities of Council are well managed.</p> <p>Although there is no information systems strategic plan to support the strategic direction and objectives of the organisation, this risk is managed by the close involvement of IT in the business planning process.</p> <p>The Council have adopted IT security and use policies, which cover key areas.</p>

Management aspect	Assessment	Comment
Financial management control environment	Good (2004: Excellent)	<p>The financial control environment is sound. This is evidenced by the following:</p> <ul style="list-style-type: none"> m Budgets are reviewed at divisional level and overall Council level. The Council's budgetary processes are rigorous with close monitoring of expenditure throughout the financial year. ■ The establishment of a Planning and Monitoring Sub-Committee has enhanced corporate governance and fulfils the function of an Audit Committee. m There is comprehensive reporting to the Planning and Monitoring Sub- Committee on a quarterly basis. <p>However, we have outlined some areas in Appendix 1, which require improvement. Our recommendations include the following:</p> <ul style="list-style-type: none"> m Development of a central location for all policies and guidelines so they are easily accessible by all staff. We understand that this project is already underway. m Development of a standalone policy for fraud.
Service performance information and information systems	Excellent (2004: Excellent)	<ul style="list-style-type: none"> m Service performance information systems are appropriate for the nature of the organisation. ■ The Council has good systems to record service performance and the internal controls over non- financial data are well established.
Service performance management control environment	Excellent (2004: Excellent)	<p>Performance standards are outcome focused and are linked to the day-to-day operations of the Council and to the community outcomes defined in the LTCCP.</p> <p>The Council reports regularly on service performance, enabling the effective monitoring of service provision.</p> <p>We will continue to work with the Council to ensure the SSP measures are further enhanced to provide a more meaningful view of the Council's objectives and achievements.</p>

4 COMPLIANCE WITH LEGISLATIVE REQUIREMENTS

We have reviewed the systems and procedures that the Council employ to identify and comply with legislative requirements. We note that, as part of its overall approach to meeting its legal compliance obligations, Council is part of the SOLGM Legal Compliance project.

A breach of law relating to the timely submission of a Statement of Intent by WRC Holdings Limited to its shareholder WRC, was identified during our audit. This breach was recorded in the subsidiary's financial statements.

5 ASSESSMENT OF INFORMATION SYSTEMS AND PROCESSES

As part of our regular audit we updated our assessment of organisational risk and followed up any issues raised during previous audits. We are satisfied that risk in all areas is being well managed and the following is a summary of our findings and conclusions.

One area of concern was that there was no Information Systems Strategic Plan to support the strategic direction and objectives for the organisation, aligning all IS/IT initiatives with those of the respective division's objectives and ultimately the Council. Based on our discussions with the IT Manager we are satisfied that the close involvement of IT in business planning processes and the inclusion of all IT initiatives and projects in business plans, addresses this risk.

In prior year management reports we raised issues regarding IT Policies and Contingency Planning. We are pleased to note that both these areas are being addressed. We reviewed the draft IT policies and consider that they adequately cover all the key areas. We made some suggestions for improvement, primarily regarding the level of detail and guidance in policies on passwords and backup processes. We also discussed progress on developing contingency plans with the Council Secretary.

While there is still work to be done, we are pleased to see that a robust process is being followed and that there is evidence of senior management buy-in and commitment to this important risk management area. We will review this area in more detail during our next audit when divisional plans are expected to be more complete and the proposed Implementation Team has had an opportunity to test that planned responses are appropriate.

6 AREAS OF AUDIT EMPHASIS

6.1 Review of the amended 2003-2013 LTCCP

We completed a high-level review of the Council's proposed amendment to its 2003-2013 Ten-Year Plan (LTCCP), as detailed in the Statement of Proposal (SOP). Our review focused on the SOP's compliance with the Local Government Act 2002, as far as it relates to the proposed amendment and our findings are detailed in our letter dated 10 February 2005. We did not complete an audit of the proposed amendment, as an audit is not required until 2006.

6.2 Wellington Regional Stadium Trust Interest

The Council, the Wellington Regional Stadium Trust (Stadium Trust) and the Wellington City Council made an application to the High Court for a declaration judgement on the Stadium Trust's status. This application was heard in the High Court in June 2004 and in July 2004 the High Court declared that the Stadium Trust was not a Council Controlled Trading Organisation (CCTO) and that Part 5 of the Local Government Act 2002 did not apply to the Stadium Trust. The IRD appealed this decision. However, on \ September 2005 the Court of Appeal dismissed the IRD appeal.

6.3 Public transport and strategic roading funding

The provision by the Government of \$253m for upgrading the above has not impacted the current year. The funding has not yet been received and a consultation process is currently underway with respect to the best use of the funds. Going forward we will need to gain an understanding of:

- the accounting treatment of grants received
- any potential impact on existing owned assets (stations, etc)
- impact on the LTCCP (funding streams, depreciation, balancing the budget)

A key part of the process for GWRC will be contract management – major contracts will be with Toll Holdings (rail operator) and potentially Railcorp or On Track (owner of the tracks).

We will keep a watching brief on developments in this area.

6.4 Doubtful debt and other provisions

We have noted in prior management reports that several provisions do not comply with the definition of a liability as defined in the Statement of Concepts. We have assessed the impact of these provisions on the financial statements in prior years as not material and have recommended to the Council that they comply with generally accepted accounting practice.

In addition, the Council has a general provision for doubtful debts to cover rates receivable. Our discussions with Council personnel has highlighted that this provision for rates receivable is a general rather than a specific provision and might be used to cover successful challenges to past rates which could go beyond the extent of unpaid rates at 30 June in any given year. This method of determining the doubtful debts provision has been followed in prior years.

It is generally accepted accounting practice to provide for existing rather than potential doubtful debts. Where general provisions are used they should be calculated on a reasonable basis, such as the Council's past history of debts written off as uncollectable or all debts that are a certain number of days old.

Our review of the Council's doubtful debt provision in 2004/05 has found that this is still an issue. The total value of these doubtful debt provisions has decreased from \$1,046,885 in 2004 to \$976,606 in 2005. We have assessed the impact of these

provisions on the financial statements as not material and have recommended to the Council in our management report that it reassesses the rationale used to provide for doubtful debts.

We will continue to keep a watching brief on developments regarding these issues in 2005/06.

6.5 International Financial Reporting Standards

The first time Council will publish NZ IFRS (International Financial Reporting Standards) figures will be for the 2006 LTCCP. This will require the 30 June 2006 financial statements and the 1 July 2005 opening balance sheet to be restated to NZ IFRS.

We have discussed with Council the progress being made in preparation for the adoption of IFRS. The Council has employed a Special Project Accountant to review the NZ IFRS requirements and they have drafted an annual plan with disclosure and format changes, excluding numbers. This format will be used as the basis for the 2006 LTCCP.

By the end of October 2005 a mock up of the 2006 LTCCP, with numbers, will be available. We plan to complete a review of this document.

6.6 Local Government Act 2002 (LGA)

The LGA was enacted on 1 July 2003. As Council was one of the "early 9" adopters of an LTCCP, this was the second year that the Council was required to fully comply with the Act. The only issue noted was the breach referred to in point 4 above.

6.7 Summary Annual Report

As part of the annual audit we are required to provide an audit opinion on the summary financial statements required by section 99(2) of the Act. The audited Summary Annual Report is to be made publicly available within one month of the adoption of Council's Annual Report. We completed our audit on 26 October 2005.

7 MATTERS ARISING FROM THE AUDIT

Matters arising from the audit are detailed in Appendix 1. These matters have been discussed with management and their responses and proposed actions are included in the Appendix.

8 UPDATE OF KEY MATTERS RAISED IN PREVIOUS MANAGEMENT LETTER

The current status of each of the items that were "outstanding" at the end of the 2004 final audit is detailed in Appendix 2 below.

9 REVIEWS ON BEHALF OF THE AUDITOR-GENERAL

9.1 Annual Report adoption and public release dates

We have noted the dates at which the Council adopted its annual report, and will make the full and summary annual reports available to the public. This information will be forwarded to the Office of the Auditor-General.

9.2 Review of key planning systems and processes applied in the preparation of LTCCP

We enquired into the planning systems and processes of Council in preparing the LTCCP. Our enquiries focused on a number of the identified key controls required for the preparation of the LTCCP. The purpose of the review was to identify at a high level the key controls and the risk assessment of the internal control environment. There were no significant issues arising from our review that require to be reported.

9.3 Local Government Elected Members Determinations

We reviewed compliance with the Elected Members determination. We are satisfied that members are being paid in accordance with the determination.

9.4 Audit of exempt CCOs

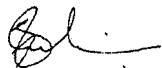
We have been asked by the Office of the Auditor-General to advise them on Council's use of Section 7 of the Local Government Act 2002 (the Act). Under section 7 of the **LGA 2002**, a local authority may exempt a "small" CCO from the accountability regime that applies to CCOs under that Act.

We note that the Council has not resolved to exempt any CCOs under Section 7(3) of the Act. We will advise the **OAG** accordingly.

10 ACKNOWLEDGEMENT

I would like to express our appreciation for the assistance provided to us by your staff during our audit. If you have any queries on the above matters, please do not hesitate to contact either me on **09 914 8629** or Phil Sharman on (04) **496-3099**.

Yours sincerely



Rudie Tomlinson
Director

cc	Judith Aitken	Chair, Planning and Monitoring Sub-Committee
	David Benham	Chief Executive Officer
	Barry Turfrey	Chief Financial Officer

MATTERS ARISING FROM THE AUDIT

I FINANCIAL AND SERVICE MANAGEMENT

Under the reporting system used by the Audit Office the Council's grades on Financial Control Systems and Financial Management Control Environment have changed from a grading of excellent in 2004 to good in 2005. It is appropriate that we make some general comments on these grades,

A number of the areas noted for improvement have remained unchanged for a number of years, in particular, all of the matters noted under Financial Management Control Environment. In respect of Financial Control Systems, we do accept that evidence of review of data entered from the Fixed Asset System into SAP should be undertaken.

2 COMPLIANCE WITH LEGISLATIVE COMPLIANCE

The submission of WRC Holdings limited Statement of Corporate Intent was delivered on 8 March 2005. The Local Government Act required it to be delivered on 8 March 2005. The delay was caused mainly by the timing of the meeting schedule.

3 REVIEW PROCESS OF RATES COLLECTION

The Council have appointed Territorial Authorities (TAs) as collection agents to assess, invoice and collect the rates which the Council sets in respect of the rating units within the district of the TA. Within these agreements the Council is held ultimately responsible for these processes.

We recommend that Council consider implementing a review process over the systems employed by agent Councils. This would ensure that all revenue owed to it, for example, remittances and penalties, is being received. This would also minimize any risk that the Council is receiving less revenue than budgeted for.

Management comment

There are regular rates meetings and reviews held with all TA's. Our revenue is reviewed monthly and when there has been a discrepancy it has been followed up and rectified to the satisfaction of the Council immediately.

There is the requirement for Council to approve rate and penalty remission each year and these contracts do have a formal three year review. The initial years of these contracts have not provided any revenue issues for the Council. We are also comfortable that the Audit Office audits the TAs and this is a satisfactory review process.

Before implementing any further review process the Council will need to balance the additional cost with the benefits accruing. However, we will discuss with the TAs a review process of the TAs systems.

4 POLICIES AND PROCEDURES

4.1 General

During our review of policies and procedures employed by the Council it was noted that a complete list of the Council's policies was not available from any one area. We understand that the Council is in the process of reviewing its policies and placing them in a centrally located site, to enable easy staff access to these documents. We will review the progress of this project during our next audit visit.

Management comment

Management notes that personnel (particularly managers) are made aware of all policies. New staff induction processes include sessions with all areas of the business and all people with financial authority are required to attend the finance course "GW's Essential Finance plus SAP training. Each operating division have qualified accountants (Divisional Accountants) to support their managers and to ensure policies are complied with.

As you have noted, these will shortly be available on our Intranet to ensure easy access for all staff

4.2 Fraud Policy

We also noted during our review that the Council does not have a stand alone documented fraud policy or a fraud response plan.

We consider that it is best practice to have a documented fraud strategy in place. The strategy does not need to be complex or lengthy, but as a minimum should specify the Council's understanding and position in regards to the:

- m identification of key risk areas based on past experiences and an understanding of the Council's business profile
- establishment of "whistle-blowing" arrangements to enable staff to communicate any concerns directly and confidentially
- m assignment of responsibility for the oversight of fraud issues and investigation of any suspicions or allegations
- m procedures for responding to fraud or corruption (or reference to a fraud response plan) and
- reporting requirements to both the Chief Executive and the Council,

Having appropriate fraud policies and procedures provides the basis for a fraud prevention framework. It demonstrates that not only is the Council aware of the risks it faces from fraud but also that it has also formulated a response to these risks.

Management response

All staff can have confidential discussions with our Human Resource Department and our Protective Disclosures Policy provides the appropriate procedures for reporting issues of potential wrong doing directly in strict confidence. All staff are made aware of these policies through the induction process.

Fraud is covered individually through serious misconduct clauses in all employment contracts and our code of conduct provides for appropriate behaviour of all staff

The introduction of the centralised policy register with appropriate communication and continued training for all staff will ensure greater awareness and understanding of all key policies.

However we will discuss this matter with the Audit Office with a view to developing a policy.

4.3 Entertainment expenditure policy

It was recommended in the prior year that the Council develop an entertainment policy to provide guidance to staff as to what constitutes appropriate expenditure in this area. It is pleasing to note that a policy has now been developed and is in place.

We note that the Council's entertainment policy currently does not provide guidance to staff as to what level and type of expenditure is appropriate.

We recommend that the entertainment policy be further enhanced to include guidelines on the type, range and level of expenditure that the Council considers appropriate.

Management comment

The Council has implemented an Entertainment Policy based on an example given to us by the Audit Office. Under this policy any entertainment incurred by a staff member has to be approved by their manager. In addition, entertainment expenditure is reviewed on a monthly basis by the Executive Management Team. We believe these controls are adequate, however, we will look at this matter further.

5 MEMBERS INTEREST DECLARATIONS

While reviewing the members' interests register for compliance with the Local Authorities (Members' Interest) Act 1968, it was noted that the Council had not received a members' interest declaration from the three former councillors who were not re-elected. These councillors were still acting until the election in October 2004, therefore creating the possibility that they had dealings with related parties within the first four months of the year.

We also noted one returned members' interest declaration that had been signed and dated, but did not indicate whether the member had any interests to disclose.

We recommend that Councillors complete interest declarations on a regular basis in line with Council policy.

Management comment

This has been noted and passed on to the appropriate staff to ensure complete declarations are received.

6 RESOURCE CONSENT HEARING FEE CLAIM FORMS

While reviewing the remuneration of Councillors for disclosure in the notes to the financial statements, we noted five instances where the correct procedure for claiming these fees appears not to have been followed.

It is our understanding that the required procedure is for the Councillor to complete a "Resource Consent Hearing Fee Claim" form showing the number of hours they are charging and calculating the amount to be received. However, on these five occasions only the dollar amount being claimed was written on the "Attendance and Expenses Summary Statement" for the pay period and no indication of the hours being claimed was documented.

We recommend that payments only be made on appropriately completed claim forms.

Management comment

This has been noted and passed on to the appropriate staff to ensure complete claims are received.

7 MONTHLY RECONCILIATIONS

During our review of accounts receivable, creditor and payroll reconciliations, several instances were noted where no evidence existed that the reconciliations had been independently reviewed.

The completion and review of reconciliations is an important element of the control environment, helping to ensure that the information in both the general ledger and the sub ledgers is up-to-date and accurate.

An independent review of such reconciliations ensures that they have been appropriately prepared and that any discrepancies are identified on a timely basis. **As** with all controls, the preparer and reviewer should evidence their role by way of an initial or signature.

We recommend that all reconciliations be independently reviewed.

Management comment

The reconciliations were complete but unfortunately with a number of staff changes last year the practice of signing and dating them did not always occur. On review there were no reconciliation issues and we understand no audit issues arose because of this. Staff have been reminded of the necessity to document that the independent review has occurred.

8 JOURNAL PROCESSING

While performing a review of the journal processing system, it was noted that it is possible for finance and divisional accountants to create and post journals without those journals being subject to review.

The review and approval process of journals is an important control in preventing the incorrect or improper use of journals. Implementing this process will enhance the control environment for both management and external reporting purposes.

We recommend that the Council review their journal processing system and consider implementing a documented review process over those journals where they consider there is a control risk, for example, one-off or non-standing journals. This review should be completed by an independent senior staff member with knowledge and experience of the transactions involved. Their review should be evidenced by a signature and a date to ensure that there is evidence that the review has been performed, in a timely manner.

Management comment

Previously journals created in the divisions had to be reviewed by the Finance department. We have now stopped this process because in our view the responsibility for the preparation of the financial statements lies with the division. It is not for the Finance department to second guess or review transactions prepared by a qualified accountant in areas where the Finance department may not have complete understanding of the transactions involved. In fact, the previous process took away responsibility from the division for the preparation of reliable and accurate financial statements. We are firmly of the view that this responsibility lies firstly with the division.

Divisional Accountants can also only affect journals within the operating side of their own division, with other journals authorised and processed by appropriately authorised finance staff.

While we believe this strengthens the control environment, we also undertake a detailed review of the management accounts monthly by the division, Chief Financial Officer Finance Manager and the Executive Management Team. On a quarterly basis there is a formal review of the division's operations and financial performance by the Chief Financial Officer and Chief Executive.

The Council receives monthly financial statements and commentary, with each quarter being reported in detail. The Committees for the various divisions also receive monthly reports at their regular meetings.

We believe this process is more than adequate but will discuss this matter further with the Audit Office to resolve this matter.

9 EMPLOYEE PAYROLL FILES

We noted while reviewing payroll expenditure that not all the employee files tested have been kept current. Documentation we were unable to find included signed remuneration review letters.

While we acknowledge that there are difficulties associated with keeping all correspondence regarding employees on their personal file, it is essential that all key documents such as remuneration reviews and letters be retained so that an accurate audit trail exists as to the rates being paid to those individuals.

We recommend that endeavors be made to retain and file all remuneration and other employee information on a timely basis on employees' personal files.

Management comment

The review letters are prepared and sent within divisions and despite efforts being made the Human Resources Department does not always receive copies of the letters. Completed (and printed) spreadsheets duly signed by managers and Divisional Managers are maintained within payroll. These were checked during the audit.

It is acknowledged that file copies of the letters should be filed and we will take measures to ensure this is done.

10 PAYROLL MASTERFILE CHANGES

While reviewing the payroll system, it was noted that a signed hardcopy of the fortnightly masterfile audit report is not being kept after it has been reviewed, as the report could be reprinted from the SAP system if necessary. However, the SAP system gives no evidence of an independent review having been performed.

Independent checking of this report is a key element in ensuring that the correct payments are being made to bona fide employees, The absence of this control may expose the Council to inappropriate or fraudulent payments being made.

We recommend that the hard copies of the fortnightly audit reports be signed and dated by the independent reviewer and then filed. This will provide added assurance that an independent review is being performed and payroll expenditure is appropriate.

Management comment

All managers receive fortnightly payroll reports listing payments made to staff

These reports are reviewed each pay by the HR Manager. We will ensure there is a report file evidencing this review. They are not retained due to their size. A check box will be added to the fortnightly pay schedule to verify that the reports have been reviewed.

We note from an auditing perspective that demonstrated signed and dated reports provide further surety that procedures are being carried out.

11 FIXED ASSETS

There is no review being performed of the operational fixed assets system to ensure that the correct information is entered into the SAP fixed assets module for additions, disposals and the capitalisation of work-in-progress.

Currently, an accountant enters fixed asset information into the fixed asset register and also posts the journals from the fixed assets module to the general ledger. However, there is no review performed by an independent person to ensure that the details are correct.

A post-input review is an important control for the accuracy of the fixed asset register. By performing a post-input review of the information being entered into the fixed asset register, assurance can be gained that the fixed asset register has not been materially misstated through error.

We recommend that the information being entered into the fixed assets module be subject to independent review prior to posting to the general ledger.

Management comment

Changes in staff in this area did result in a reduction of clearly evidenced independent review, This process has been reviewed and evidence of review will occur in future; however the rigorous management accounting process provides the necessary comfort that treatment of assets has been correct.

STATUS OF MATTERS PREVIOUSLY REPORTED

Issue	Recommendation	Current Status
Entertainment expenditure		
<p>During our review of entertainment expenditure, we noted that Council has no policy dealing specifically with expenditure of this nature. An entertainment expenditure policy would provide useful guidance to staff in indicating what type and level of expenditure is appropriate and reasonable, and should reduce the risk for any potential misunderstanding.</p>	<p>We recommended that an entertainment policy be developed to provide guidance to Council staff.</p>	<p>It is pleasing to note that the Council has now implemented an entertainment policy, which provides guidance to staff.</p> <p><i>Issue cleared. However we have suggested further enhancements to the entertainment policy in point 2.3 above.</i></p>
IT security and use policy not documented		
<p>We noted in the prior year that the Council's policies and procedures for governing security of the Council's are not consolidated into one overall policy.</p>	<p>We recommended the consolidation of the Council's IT policies.</p>	<p>The Council have adopted a new IT security and use document.</p> <p><i>Issue cleared. Also refer to point 5 in the main body of this letter.</i></p>
Protected Disclosure Act 2000		
<p>In the prior year's management report we made some suggestions as to how the Council's policy on the Protected Disclosures Act 2000</p>	<p>We recommended that improvements be made to the Council's Protected Disclosures Act 2000.</p>	<p>The Council has updated its protected disclosures policy to incorporate our recommendations.</p> <p><i>Going forward the Council needs to ensure that ongoing training is provided to staff as to the existence and contents of this policy. Issue cleared.</i></p>
Work In Progress (WIP)		
<p>During our prior year reviews of the systems for Water Reticulation, Flood Protection and Regional Parks & Forest Infrastructural Assets, it was noted that assets in Work In Progress (WIP) were not transferred until year-end. This may result in an understatement of depreciation if the asset was in use during the year.</p>	<p>We suggested that for depreciation expense to be charged correctly, all assets should be transferred from WIP as soon as they are in use and appropriate depreciation charged.</p>	<p>The Council has reviewed the impacts of this incorrect treatment and deemed the error immaterial for additional work to be performed. We agree with this assessment at the present time, but will continue to review the effects on an annual basis and maintain a watching brief on this matter.</p> <p><i>Issue cleared.</i></p>

Issue	Recommendation	Current Status
Annual Leave Balances		
<p>We reviewed the annual leave balances and noted that a number of employees have annual leave balances of more than 40 days.</p> <p>Whilst the Council has a collective agreement allowing up to 46 days annual leave to accumulate, these balances are still considered relatively high and represent a significant liability to the Council, which increases further with salary increments.</p>	<p>We suggested that the Council should regularly review the annual leave balances to ensure the liability and associated risks are minimised.</p>	<p>We understand that the Council has an action plan for the timely review of annual leave balances in place.</p> <p>In particular leave balance reporting is provided monthly to all managers with any balances over 46 days highlighted. Staff members need formal agreement with their Divisional Manager for balances beyond this level.</p> <p>We also note the Council has a number of personnel (over 100) who have been employed in excess of 10 years and an overall an average length of service of over 7 years. These factors contribute to the balance appearing higher than many organisations.</p> <p>The liability has reduced from \$1,640 k at June 2004 to \$1,574 k at June 2005.</p> <p><i>We will continue monitor future progress on this issue.</i></p>

MANAGEMENT ASPECTS TERMINOLOGY

Definition of gradings

Assessment term	Further explanation
Not applicable	Not examined or assessed; comments should explain why.
Not adequate	Does not work; needs complete review. We would have recommended major improvements to be made urgently.
Just adequate	Does work but not well at all. We would have recommended improvements to be made as soon as possible.
Satisfactory	Works well enough, but improvements desirable. We would have recommended improvements (while having regard for costs and benefits) to be made during the coming year.
Good	Works well; few or minor improvements only needed to rate as excellent. We would only recommend improvements where benefits exceed costs.
Excellent	Works very well; no scope for cost-beneficial improvement identified.

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), payroll and general ledger. This covers controls surrounding the processing of these transactions such as completeness and accuracy of data.
Financial management information systems	Reporting systems (to CEO, Managers, Treasury, etc — linkage to external budgeting down to project management), This is the IS/IT control environment. This includes such things as: <ul style="list-style-type: none"> <input type="checkbox"/> IS/IT strategic planning <input type="checkbox"/> Disaster recovery provisions <input type="checkbox"/> Data integrity <input type="checkbox"/> Access controls <input type="checkbox"/> Programme change controls <input type="checkbox"/> Physical security of hardware and software <input type="checkbox"/> Errors <input type="checkbox"/> Estimation of data

Term	Definition
Financial management control environment	<p>Financial management policies and decisions (eg, fixed asset management and replacement)</p> <p>These are the upper level controls and include such things as:</p> <ul style="list-style-type: none"> ■ Financial management policies and procedures ■ Self-review (including Internal Audit) ■ Assurance (Audit) Committees ■ Budgeting Processes ■ Exceptions reporting ■ Cash flows ■ Other assurance measures
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> <p>This includes such things as:</p> <ul style="list-style-type: none"> ■ Monitoring/control systems ■ Performance measures robustness ■ Usage as management tool, eg, linkage to HR (performance agreements) ■ Errors ■ Estimation of data
Service performance management control environment	<p>These are the upper level controls and include such things as:</p> <ul style="list-style-type: none"> ■ Operations policies and decisions re contracts ■ Quality assurance (where appropriate) ■ Planning processes ■ Assurance (Audit) Committee ■ Self-review (including Internal Audit) ■ Exception reporting ■ Other assurance processes