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Committee Planning and Monitoring Subcommittee
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The Auditor's Review of the Five Management Aspects

1. Purpose

To update the Committee on the changes to the five management aspects review undertaken by Audit New Zealand and recommend changes.

2. Significance of the decision

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Background

As part of the year end audit, our auditors, Audit New Zealand, undertakes a review of what is termed the five management aspects.

These five management aspects are:

1. Financial control systems
2. Financial management information systems
3. Financial management control environment
4. Service performance information and information systems
5. Service performance management control environment.

The five management aspects has been compulsory for central government organisations. Greater Wellington is one of the few (if not the only) council which continues to participate in this system review.

The Office of the Auditor General (OAG) is replacing the five management aspects with a new assessment framework involving three aspects, namely:

1. Management control environment
2. Financial information systems and controls
3. Service performance information and associated systems and controls.

The most substantive change is the basis upon which grades will be assigned. Grades will now be based purely on any deficiencies observed by the auditors.

A letter from the OAG including explanatory notes is attached (refer **Attachment 1**)

4. Comment

At the completion of the year end audit, the auditors provide gradings on the five management aspects ranging from excellent to poor.

There is considerable debate between management and the auditors on the gradings. From Greater Wellington's perspective some of the gradings appeared subjective and inconsistent. For example, in 2004 Greater Wellington had five excellents (that is to say no room for improvement). In 2006 these gradings had changed to two excellents and three goods. During that period there has been little change to our systems or processes.

Management have been considering whether the five management aspects review by the auditors should be continued. The change by OAG to the three aspects provides an opportune time to review Greater Wellington's future involvement.

The letter from the Auditor General outlines the auditors' approach to the new system. It is clear from the letter that the assessment framework is primarily for Central Government including reporting to Ministers and Select Committees. Local Government is not mentioned.

The new framework, while simpler than the previous one still relies on the auditors' notion of best practice.

Regardless of whether there is a three or five management review system, the question that needs to be answered is whether Greater Wellington should continue with this review system.

The auditors carry out a system audit as part of the year end audit. At the end of the process, apart from the audit report, a management letter is produced by the auditors. The management letter comments on any matters that have come to the auditors' attention, which they believe needs to be brought to our notice.

The production of the management letter involves a process of discussion between management and the auditors before the final letter is produced.

The five management aspects does not involve such an interactive process. The gradings are set and management then comment upon them.

Management's view is that the audit process (including the management letter) is more than adequate. The addition of the five (or three) management aspects does not provide any significant benefits to the Council.

As such, it is recommended that Greater Wellington not continue with the five (or three) management aspects.

5. Auditors

The auditors are comfortable with management's recommendations on this matter.

6. Communication

No communication is necessary.

7. Recommendations

That the Committee recommend that Council:

- 1. **Receives** the report.*
- 2. **Notes** the content of the report.*
- 3. **Agrees** with the Council not participating in the five management aspects review.*

Report prepared by:

Report approved by:

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Attachment 1: Letter and explanatory notes from OAG.